CORPORATE GOVERNANCE

"WITH A PROVEN STRATEGY AND THE SUPPORT OF AN EXPERIENCED GROUP OF MANAGERS ON THE EMC, THE BOARD IS CONFIDENT THAT IT REMAINS IN A STRONG POSITION TO MEET THE LIKELY CHALLENGES DURING THIS TRANSITION YEAR"

John Nicholas, Chairman

Members of Board	Attendance
Chairman	
John Nicholas	10/10
Independent non-Executive Directors	
Andy Smith	10/10
Charles Packshaw	10/10
Anne Thorburn	9/10
Executive Directors	
Nigel Lingwood	10/10
Bruce Thompson (retired on 8 May 2018)	4/5
Richard Ingram (23 April 2018 to 28 August 2018)	3/3

DEAR SHAREHOLDER

The Board and its Committees have had a busy year in 2018. At the start of the year, the Nomination Committee was focused on the recruitment of a new CEO to succeed Bruce Thompson. That process concluded in January 2018 with the announcement that Richard Ingram would join the Group in the Spring. I reported last year that the Board recognised that the period of transition to a new CEO was likely to be challenging but I had not anticipated that these challenges would lead to Richard being asked to leave the Group at the end of August. The Committee is again conducting a search for a suitable successor and is working with a different search firm with a revised specification. In the interim, my colleagues have asked me to assume the role of interim Executive Chairman which I have agreed to do.

The Board also reviewed the appropriateness and future potential of the Group's strategy during the year. The current strategy has proven to be resilient and successful over several years and the Board had no hesitation in confirming continued support.

Membership of the Executive Management Committee has recently been broadened to reflect the future requirements of the Group, further appointments, including that of an HR professional are planned for this year. Details of the Committee are set out on pages 36 and 37.

The Remuneration Committee has also spent considerable time on CEO succession matters relating to the recruitment of Richard Ingram and then after the year end in relation to the financial settlement when he departed the Group. Further details of this work are included in the Committee report on pages 56 and 57.

2018 has been the first year for the new Group auditor, PricewaterhouseCoopers ("PwC") and the Audit Committee has worked closely with both PwC and the Group's finance departments to ensure a smooth transition from Deloitte LLP and an effective audit. Further details of this work are in the Committee report on pages 44 and 45.

In line with the UK Corporate Governance Code, the Board held an externally facilitated evaluation towards the end of this year. The review was facilitated by Clare Chalmers leading to a report on her observations which in October was discussed by the Board. I am pleased to report that this report confirmed that the Board and Committees were operating effectively, but I recognise there is always scope for improvement. I am working with the Company Secretary on the suggestions arising from the report and will report on progress next year.

John Nicholas
19 November 2018

FRAMEWORK OF CORPORATE GOVERNANCE

THE BOARD

The Diploma PLC Board is accountable to the Company's shareholders for standards of Governance across the Group's businesses. Certain strategic decision-making powers and authorities of the Company are reserved as matters for the Board. The principal matters reserved for the Board are set out below. Day-to-day operational decisions are managed by the Chief Executive Officer.

- Setting the overall strategic direction and oversight of the management of Diploma PLC.
- Recommending or declaring dividends.
- Approval of the Group and Company financial statements.
- Approval of new bank facilities, or significant changes to existing facilities.
- Assessment and approval of the principal risks facing the Group and how they are being managed.
- Approval of the Viability Statement.
- Maintaining sound internal control and risk management systems.
- Approval of major corporate transactions and commitments.
- Succession planning and appointments to the Board.
- Review of the Group's overall corporate governance arrangements and reviewing the performance of the Board and its Committees annually.
- Approval of the delegation of authority between the Chairman and the Chief Executive Officer and the terms of reference of all Committees of the Board.

Where appropriate, matters are delegated to a Committee, which will consider them in accordance with its terms of reference. Details of each Committee's terms of reference are available on the Diploma PLC website at www.diplomaplc.com/governance/constitutional-documents.

AUDIT COMMITTEE

Chaired by Anne Thorburn

Number of meetings in the year: five

Role of the Committee

The Audit Committee has responsibility for overseeing and monitoring the Company's financial statements, accounting processes, audit (internal and external), internal control systems and risk management procedures and also monitors issues relating to fraud, anti-bribery and corruption, sanctions and whistleblowing.

NOMINATION COMMITTEE

Chaired by John Nicholas

Number of meetings in the year: four

Role of the Committee

The Nomination Committee regularly reviews the structure, size and composition of the Board and its Committees. It identifies and nominates suitable candidates to be appointed to the Board (subject to Board approval) and considers succession generally.

REMUNERATION COMMITTEE

Chaired by Andy Smith

Number of meetings in the year: six

Role of the Committee

The Committee reviews and recommends to the Board, the framework and policy for the remuneration of the Chairman and the Executive Directors. The remuneration of the non-Executive Directors is determined by the Chairman and the Executive Directors. The Committee takes into account the business strategy of the Group and how remuneration policy should reflect and support that strategy.

LEADERSHIP

Board composition

The Board comprises a Chairman, one Executive Director and three independent non-Executive Directors. The non-Executive Directors are appointed for specified terms and the details of their respective appointments are set out in the Remuneration Committee Report on page 55. The biographical details of the Board members are set out on pages 36 and 37.

John Nicholas is Chairman of the Board and Chairman of the Nomination Committee. Each of the three independent non-Executive Directors performs additional roles: Charles Packshaw serves as Senior Independent Director, Andy Smith is Chairman of the Remuneration Committee and Anne Thorburn is Chair of the Audit Committee.

Activities of the Board

The Company's governance framework is set out above together with a summary of the formal terms of reference. The core activities of the Board and its Committees are planned on an annual basis and this framework forms the basic structure within which the Board operates.

The Board's terms of reference also set out the separate and distinct roles of the Chairman and the Chief Executive Officer.

COMPLIANCE WITH THE CODE

Diploma PLC is required to state how it has applied the Main Principles of the UK Corporate Governance Code ("the Code"), issued by the Financial Reporting Council in April 2016. Set out on pages 40 to 42 is an explanation of how the Company has applied the Main Principles of the 2016 Code.

The Board confirms that throughout the financial year, the Company applied all of the Principles set out in sections A to E of the Code for the period under review. The Board also confirms that it complies with all of the Provisions of the Code, with the single exception of A.2.1 as explained below:

The Code requires that the role of Chairman and Chief Executive Officer should not be exercised by the same individual. While this is ordinarily the case for the Company, following the departure of Richard Ingram, Chief Executive Officer, on 28 August 2018, the Board appointed John Nicholas as interim Executive Chairman until a new Chief Executive Officer is appointed. The Nomination Committee has appointed an external search agency to assist the Board with the appointment of a new Chief Executive Officer. On appointment of a new Chief Executive Officer, John Nicholas will relinquish his role as interim Executive Chairman and revert to his previous role as non-Executive Chairman.

The Company's auditor PricewaterhouseCoopers LLP, is required to review whether this statement reflects the Company's compliance with the Provisions of the Code specified for their review by the Listing Rules of the FCA and to report if it does not reflect such compliance.

In July 2018, the FRC issued a new Code which will be mandatory for the Company in respect of the year ending September 2020. The Board will assess its governance practices against the provisions of the new Code during 2019 and will report on its implementation in next year's Annual Report & Accounts.

CORPORATE GOVERNANCE CONTINUED

The Chairman is responsible for the overall leadership and governance of the Board and ensures that the Directors have an understanding of the views of the Company's major shareholders. The Chairman sets the Board's agenda and ensures that there is a healthy culture of challenge and debate at Board and Committee meetings.

The Board appoints the Chief Executive Officer and monitors their performance in leading the Company and providing operational and performance management in delivering the agreed strategy. The Chief Executive Officer is responsible for developing, for the Board's approval, appropriate values, culture and standards to guide all activities undertaken by the Company and for maintaining good relationships and communications with investors.

The approval of acquisitions, for the most part, is a matter reserved for the Board, save that it delegates to the Chief Executive Officer the responsibility for such activities to a specified level of authority. Similarly, there are authority levels covering capital expenditure that can be exercised by the Chief Executive Officer. Beyond these levels of authority, projects are referred to the Board for approval.

Other matters reserved to the Board include treasury policies, internal control and risk management.

To ensure that non-Executive Directors can constructively challenge and support proposals on strategy, the Board has adopted a process of reviewing and approving the agreed strategy for the Company on a three-yearly basis. The Board met in October 2018 and reviewed an update of the Company's strategy. A more structured and formal review will be undertaken by a new Chief Executive Officer, in the year following appointment.

Meetings of the Board

The Board has seven scheduled meetings during the financial year but will meet more frequently if required. In 2018 the Board had an additional three meetings largely as a consequence of matters relating to the appointment and subsequent departure of the Chief Executive Officer.

Each Director is expected to attend all meetings of the Board or Committees of which they are a member. In addition, senior management from across the Group and advisors attend certain meetings for the discussion of specific items in greater depth.

Bruce Thompson and Anne Thorburn were unable to attend the Board meeting on 11 December 2017 and 25 September 2018, respectively. Both meetings were called at short notice.

The Board ensures that at least one of the scheduled meetings is held on site at one of the Group's facilities, where the Board has an opportunity to both receive presentations from local management and meet employees of that business. In August 2018, the Board's scheduled meeting was held at Cablecraft's facility in Houghton Regis, UK. At this meeting the Board received presentations from senior management in Cablecraft and had an opportunity to view the facility and meet with employees to gain a better understanding of the products and operations managed from this facility.

In October 2018, the Board approved a report on an update of the Group's strategic objectives for the three years ending 30 September 2021. This report was prepared on a top down basis with substantial input from the Executive Management Committee ("EMC") and supported by a detailed financial model which was used to assess different scenarios over the strategy period. As part of this exercise members of the EMC met for two days in London in July 2018 to review their business strategy and the opportunities to develop their Sectors, including their acquisition strategy. Based on the output from this meeting, a report was prepared by the interim Executive Chairman and Group Finance Director and was presented to and approved by the Board on 2 October 2018.

EFFECTIVENESS

Independent non-Executive Directors

The non-Executive Directors are determined by the Board to be independent in character and judgement and there are no relationships or circumstances that could affect, or appear to affect, a Director's judgement. The Chairman, John Nicholas was considered independent by the Board both at the time of his appointment as Director on 1 June 2013 and as Chairman on 21 January 2015. John Nicholas was appointed interim Executive Chairman on 28 August 2018 following the departure of Richard Ingram, Chief Executive Officer, until a permanent Chief Executive Officer is appointed.

All non-Executive Directors are advised of the likely time commitments at appointment. The ability of individual Directors to allocate sufficient time to the discharge of their responsibilities is considered as part of the Directors' annual evaluation process, overseen by the Chairman. Any issues concerning the Chairman's time commitment are dealt with by the Nomination Committee, chaired for this purpose by the Senior Independent Director.

Each non-Executive Director is required to inform the Board of any changes to their other appointments.

During the year, the Chairman has also held meetings with the non-Executive Directors, without the Executive Directors present.

The appointment of non-Executive Directors are subject to formal, rigorous and transparent procedures which are described more fully in the Nomination Committee Report which is set out on page 48.

Diversity

The Board is committed to a culture of equal opportunity and diversity to attract and retain talented people to deliver outstanding performance and further enhance the success of the Group.

In that culture, diversity across a wide range of criteria is valued, including skills, knowledge and experience as well as gender, ethnicity, religion and sexual orientation. People are appointed on merit, in an equal opportunities environment and without any form of positive or negative discrimination. External consultants, when used, are made aware of this policy.

The Nomination Committee reviews the structure, size, diversity, balance and composition of the Board and makes recommendations to the Board concerning the reappointment of any non-Executive Director at the conclusion of their specified term of office and in the identification and nomination of new Directors. The principal objective of the Nomination Committee is to ensure that all candidates have appropriate knowledge, ability and experience for the role.

The Board supports the recommendations of the Hampton-Alexander review on gender diversity but believes that other types of diversity are equally important. The Board is currently diverse across a range of criteria, but it is committed to strengthen that diversity, including gender and ethnic diversity, when appropriate opportunities arise. The Board will also take account of its objective to meet the Hampton-Alexander review targets before the end of the next Board rotation of non-Executive Directors. Additional information on diversity can be found on page 34.

Information and professional development
An induction programme is agreed for all new Directors aimed at ensuring that they are able to develop an understanding and awareness of the Group's core processes, its people and businesses. The non-Executive Directors' awareness of the businesses is further developed through periodic visits to the principal business locations and presentations to the Board by senior management of the businesses. In 2018, the Board received presentations from senior management of the Cablecraft business.

Following a new appointment to the Board, a managed induction programme is arranged that includes a visit by the Director to the major business units in each of the Group's Sectors where they have an opportunity to meet with senior management in these businesses. Meetings are also held individually between each of the non-Executive Directors and the Executive Directors and with some of the principal advisors to the Company. A managed and thorough induction programme was also arranged following the appointment of the Chief Executive Officer in May 2018. This programme provided for one-to-one meetings with members of the Board, members of the EMC and key advisors to the Company, together with substantive visits to the Group's principal businesses.

The Chairman, with the assistance of the Chief Executive Officer and the Group Company Secretary, is responsible for ensuring that Directors are supplied with information in a timely manner that is in a form and of a quality appropriate to enable them to discharge their duties. In the normal course of business, the Chief Executive Officer gives an oral report to the Board at each meeting and information is provided and reported through formal Board reports that include information on operational matters and strategic developments. There are also reports on the performance of the Group's businesses, financial performance relative to the budget, risk management, business development and investor relations.

The training needs of the Directors are periodically discussed at Board meetings and where appropriate, briefings as necessary are provided on various elements of corporate governance and other regulatory issues.

The Chairman has reviewed and agreed the training and development needs of individual Directors and encourages them to continually update their skills, together with knowledge and familiarity with the Company to fulfil their role on the Board and Board Committees.

The Group Company Secretary acts as an advisor to the Board on matters concerning governance and regulatory issues and ensures compliance with Board procedures. All Directors have access to his advice. The appointment and removal of the Group Company Secretary and his remuneration are matters for the Board as a whole.

Board evaluation
The Board undertakes an externally led evaluation of the effectiveness of the Board every three years, in accordance with the Code. This exercise encompasses an evaluation of the Board as a whole, the Board Committees and of individual Directors of the Company.

The most recent evaluation was carried out in August 2018 and was externally led by Clare Chalmers, who had no other connection with the Company. The external facilitator interviewed all Directors who had served during the year, with the exception of Richard Ingram who had stepped down from his role as Chief Executive Officer and as a Director of the Company, together with the Group Company Secretary. The evaluation also included a review of the Annual Report & Accounts, with particular focus on the section on corporate governance. There was also a review of the Board and Committee meeting papers, including minutes of each meeting.

A written report was provided to all Board members that concluded that the Board had a collegiate culture led by a capable and experienced Chairman; it added that there were sound governance and Board processes, with a successful and well-supported remuneration policy and that there was good and detailed financial reporting.

The report also set out 16 suggestions for the Board to consider relating to Board Dynamics and Culture, Board and Executive Skills and Succession, Strategic Focus, Communication & Stakeholders, Risk, Committees and Information Quality and Board Papers.

The Board met in early October to discuss the report and Clare Chalmers was invited to the meeting to facilitate an in-depth discussion of these sixteen suggestions. Following this meeting, the Chairman and the Group Company Secretary were tasked with producing an action list and timetable for the Board to implement the salient recommendations, details and progress against which will be reported on in next year's Annual Report & Accounts.

In those years when an external evaluation is not performed, the Board undertakes an internal evaluation of the Board's effectiveness using specially designed evaluation forms under the direction of the Chairman. This exercise encompasses an evaluation of the performance of the Board as a whole, as well as of each of the Committees and individuals. Feedback on Board performance is presented by the Chairman to the Board and actions and objectives are agreed for the following year.

The Senior Independent Director, together with the non-Executive Directors also carries out each year (and has done so in 2018), a performance evaluation of the Chairman, having taken account of the views of all of the Directors.

Re-election
All Directors of the Board are subject to election by the shareholders at the first AGM following their appointment by the Board and in accordance with the Code, all Directors will also stand for re-election annually at the AGM.

Liability insurance
In line with market practice, each Director is covered by appropriate Directors' and Officers' liability insurance ("D&O"), at the Company's expense. The D&O insurance covers the Directors and Officers against the costs of defending themselves in legal proceedings taken against them in that capacity and in respect of any damages resulting from those proceedings. The Company also indemnifies its Directors and Officers to the extent permitted by law. Neither the insurance nor the indemnity provides cover where the Director or Officer has acted fraudulently or dishonestly.

Professional advice
A policy is in place pursuant to which each Director may obtain independent professional advice at the Company's expense in furtherance of their duties as a Director of Diploma PLC. No formal requests were made during the year, but post-year end, advice was sought in relation to Board succession. In addition, each of the Committees are authorised, through their Terms of Reference, to seek advice at the Company's expense. During the year substantial advice was sought by the Chairman of the Remuneration Committee in relation to the appointment and subsequent financial settlement in connection with the departure of the Chief Executive Officer.

CORPORATE GOVERNANCE CONTINUED

Conflicts of interest

Directors are subject to a statutory duty under the Companies Act 2006 ("the Act") to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly could conflict, with the Company's interests. The Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the Articles of Association ("the Articles") contain a provision to this effect. The Act also allows the Articles to contain other provisions for dealing with Directors' conflicts of interest to avoid a breach of duty.

Procedures adopted to deal with conflicts of interest continue to operate effectively and the Board's authorisation powers are being exercised properly in accordance with the Company's Articles.

ACCOUNTABILITY

The Board is responsible for ensuring that the Annual Report & Accounts taken as a whole present a fair, balanced and understandable assessment of the Group and provides the information necessary to shareholders to assess the Group's position and performance, business model and strategy. The Board receives a detailed Report from the Group Finance Director which sets out the key matters that impact, or could impact the Group's financial statements and Annual Report and highlights areas of the financial statements where it has been necessary to rely upon a significant level of subjectivity. The Board also has access to all relevant information and reviews other periodic management information and RNS announcements. The draft Annual Report & Accounts are circulated to each member of the Board in sufficient time to allow challenge of the disclosures where necessary. The Directors' responsibilities statement is set out on page 65.

The Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives and for maintaining sound risk management and internal control systems. The Board is also responsible for monitoring the Group's risk management and internal control systems and it reviews the effectiveness of these systems through the work of the Audit Committee.

The principal risks which the Board has identified this year are set out in the section on Internal Control and Risk Management on pages 30 to 33 of the Strategic Report.

RELATIONS WITH SHAREHOLDERS

The Company has a well-developed investor relations programme managed by the Chief Executive Officer and Group Finance Director, with the support of the Company's brokers. Through this programme, the Company maintains regular contact with major shareholders to communicate clearly the Group's objectives and monitors movements in significant shareholdings.

In addition, Investor Roadshows are now held each year in the US and Canada as well as in the UK and formal investor presentations are made twice a year to groups of private client fund managers. The Company also engages with existing and potential new investors through a formal Capital Markets Day at which attendees have an opportunity to meet with senior management in the Group to gain a better understanding of the businesses' product portfolios. The last Capital Markets Day was held in February 2017 in London.

Most shareholder contact is with the Chief Executive Officer and Group Finance Director through presentations made twice a year on the operating and financial performance of the Group and its longer term strategy. The Chief Executive Officer and Group Finance Director generally deal with questions from individual shareholders.

The Group's website contains up-to-date information for shareholders, which includes the Annual Report & Accounts of the past ten years, current and historic share price information, news releases and presentations to analysts and key shareholders. The website also contains factual data on the Group's businesses, products and services.

The non-Executive Directors are given regular updates as to the views of institutional shareholders and independent insight is sought through research carried out twice a year by the Company's advisors, focused on both investors and analysts.

Through these processes, the Board is kept abreast of key issues and the opportunity is available on request for shareholders to meet the Chairman or Senior Independent Director, separately from the Executive Directors.

Electronic communications to shareholders include the Notice of the AGM, which is sent at least 20 working days prior to the meeting. The Company proposes a separate resolution on each separate issue and for each resolution, proxy appointment forms provide shareholders with the option to vote in advance of the AGM.

All shareholders have the opportunity to put questions at the Company's AGM, when the Chairman and Chief Executive Officer give a statement on the Group's performance during the year, together with a statement on current trading conditions. The Chairman of the Board and of the Remuneration and Audit Committees are available to answer questions at the meeting.

The Board has resolved, in line with best practice, to conduct a poll on each resolution proposed at the AGM. The results of the AGM resolutions, including details of votes cast, are published on the Company's website.

With regard to shareholder meetings, other than AGMs, the Board will continue, in ordinary circumstances, to provide as much notice as possible and certainly no less than 14 working days. However, the Board considers that it should still retain the flexibility to reduce the timescale to 14 clear days in the case of non-routine business and where it is merited by the business of the meeting. For this reason, the Board has again proposed a resolution at the AGM to reduce the notice period for General Meetings from 21 to no less than 14 clear days.

AUDIT COMMITTEE REPORT

"THE GROUP CONTINUES TO MAINTAIN A CULTURE OF ROBUST AND EFFECTIVE SYSTEMS OF INTERNAL CONTROL, OVERSEEN BY STRONG AND EXPERIENCED FINANCE DEPARTMENTS"

Anne Thorburn, Chairman of the Audit Committee

Members of Committee	Attendance
Anne Thorburn (Chairman)	5/5
Charles Packshaw	5/5
Andy Smith	5/5

DEAR SHAREHOLDER

The Committee welcomed Christopher Burns of PwC to the Company as the new auditor this year, following the formal appointment at the AGM of PwC as auditor to the Company after a competitive tender process last year. After attending last year's audit close meeting, alongside the retiring auditor, they worked diligently during the first half of the year to complete their audit transition process. At the close of this process PwC met with the Committee to confirm that they had completed their handover with the retiring auditor, had met with senior finance staff across the business and they had no significant concerns to bring to the Committee's attention.

In March this year, the Committee received a report from the Group finance team that set out a detailed evaluation of the potential impact that the new IFRS15 standard on Revenue may have on the Group's financial statements. The report was based on detailed discussions that the Group finance team had with each of the individual businesses. As expected, given the nature of the Group's business, this work confirmed that the impact on the financial statements from adopting IFRS15 was negligible. A similar exercise will be carried out in 2019 to assess the potential impact of adopting IFRS16 on Leases, and it is likely that the impact on the financial statements may be significant, as explained further on page 93 in the notes to the consolidated financial statements.

The Committee was pleased to welcome during the year the appointment of an experienced tax professional as Head of Group Tax & Treasury. The tax environment and tax demands on business have become increasingly more complex in recent years, particularly where the Group has significant operations based outside the UK. This appointment will ensure that the Group businesses both maintain compliance with local tax legislation and focus on good tax governance.

I also look forward to Neil Yazdani joining the Group in January 2019 as Group Financial Controller. Neil will replace Stuart Bell who has now moved to International Seals to support Darin Clause as Finance Director of those businesses.

As Chairman of the Committee, I continue to meet regularly with members of the Internal Audit team to discuss their reports, prepared following each of their visits to the businesses. This provides me with greater insight of the culture of the internal control environment in the Group and provides assurance that controls are both in place and are tested, which is particularly important given the Group's decentralised operating model.

I am pleased to report that again there have been no significant control deficiencies or accounting irregularities reported to the Committee this year. The Group continues to maintain a culture of robust and effective systems of internal control, overseen by strong and experienced finance departments.

I look forward to meeting shareholders at the AGM on 16 January 2019 and will be happy to respond to any questions relating to the activities of the Audit Committee.

Anne Thorburn
19 November 2018

AUDIT COMMITTEE REPORT CONTINUED

KEY DUTIES AND FOCUS IN 2018

The Audit Committee is responsible for ensuring that the Company maintains a strong control environment. It provides effective governance over the Group's financial reporting, including oversight and review of the systems of internal control and risk management, the performance of internal and external audit functions, as well as the behaviours expected of Diploma PLC's employees through the whistleblowing policy and similar codes of conduct. The Committee's role and responsibilities are set out in its Terms of Reference, which are reviewed every two years and are approved by the Board.

The Terms of Reference are available at www.diplomaplc.com/governance/constitutional-documents. The Committee's key responsibilities and focus during the year have been:

- Reviewed and agreed the scope of audit work to be undertaken by the external auditor and agreed the terms of engagement and fees to be paid for the external audit.
- Reviewed the Annual Report & Accounts and received reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed the report on compliance with the UK corporate governance Code and reports on the provision of information to the auditor.
- Reviewed the report from the Group Finance Director on the controls in place to mitigate fraud risk.
- Reviewed the Half Year Announcement and received reports from the Group Finance Director and the external auditor on the key accounting issues and areas of significant judgement.
- Reviewed a report from the Group finance department setting out the impact of new IFRSs on the Group's financial statements, including in particular IFRS15 (revenue from contracts with customers).
- Reviewed and approved the classification and presentation of the costs incurred on the CEO transition.
- Reviewed the Trading Updates at meetings held in January, March and August.
- Reviewed the effectiveness of the Group's internal control and risk management procedures and, where appropriate, made recommendations to the Board on areas for improvement.
- Invited the Director of Internal Audit to attend meetings to review the results of the Internal Audit work for the current year and to agree the scope and focus of Internal Audit work to be carried out in the following year.
- Reviewed the transition to PwC following their appointment as the Group's external auditor.
- Approved the Committee work programme for 2018.
- Reviewed the scope of new sanctions issued by the European Union and the US and the procedures being followed by the Group's businesses to monitor compliance.
- Reviewed the whistleblowing arrangements and the use of a dedicated external independent and confidential telephone hotline service for all employees to raise concerns.

AUDIT COMMITTEE

The Committee is chaired by Anne Thorburn and comprises three independent non-Executive Directors. The Chair of the Committee is a qualified accountant, who has recent and relevant financial experience.

The Audit Committee is satisfied that as a whole, the Committee has sufficient knowledge and competence of the business model and Sectors in which the Group operates in order to provide appropriate challenge to management.

The Group Company Secretary acts as Secretary to the Committee. The Executive Directors also attend Committee meetings and the Internal Audit Director also attended Committee meetings to present the Internal Audit plan for the following year and to report on progress against that plan. The Committee met with the external auditor during the year, without the Executive Directors being present.

The Audit Committee confirms that the Company has complied with the provisions of the Competition & Markets Authority Order throughout its financial year ended 30 September 2018 and up to the date of this report.

AUDIT TRANSITION

The Audit Committee completed an audit tender process in 2017 (as described more fully in the Annual Report & Accounts 2017) and recommended to the Board the appointment of Christopher Burns, PricewaterhouseCoopers LLP ("PwC") as auditor. The Board accepted and endorsed this recommendation, which was approved by shareholders at the AGM held on 17 January 2018.

The Audit Committee agreed an audit transition plan with PwC which identified key milestones, beginning with PwC shadowing Deloitte LLP ("Deloitte"), the retiring auditor, at the 2017 Group audit close meeting with management and the Audit Committee meeting held on 14 November 2017. During the first half of this year, PwC met with both members of the Group finance department and senior finance personnel of the larger businesses in the Group. At these meetings, work was carried out by PwC to plan their audit approach and prepare their audit strategy for the 2018 audit. In May, PwC reported to the Audit Committee that they had completed their audit transition plan and that there were no substantive matters to report to the Committee.

ENGAGEMENT OF THE EXTERNAL AUDITOR

The external auditor is engaged to express an opinion on the financial statements of the Group and of the Company. The audit includes the review and testing of the systems of internal financial control and the data contained in the financial statements, to the extent necessary for expressing an audit opinion on the truth and fairness of the financial statements.

As explained above, the Company's Annual Report & Accounts this year has been audited by PwC. In their first year as auditor, PwC has met with the Audit Chair and has agreed its audit strategy and audit fees with the Audit Committee. As part of its audit, PwC will continue to provide the Committee with relevant reports, reviews and advice throughout the coming year.

In accordance with UK regulations, PwC also assured the Committee that it adheres to a rotation policy based on best practice and the Group engagement partner will serve a period of no longer than five years.

During the year, the Committee carried out an assessment of the effectiveness of the external audit process for the previous year ended 30 September 2017, which was carried out by Deloitte. The assessment was led by the Chair of the Committee, assisted by the Group Finance Director and focused on certain criteria which the Committee considered to be important factors in demonstrating an effective audit process. These factors included the quality of audit staff, the planning and execution of the audit and the role of management in the audit process. Following this assessment, the Committee concluded that the external audit process remained effective and that it provides an appropriate independent challenge of the Group's senior management.

The Committee was satisfied that the Deloitte audit of the Company and Group had provided a robust and effective audit and supported the work of the Committee through clear and objective communication on developments in financial reporting and governance.

NON-AUDIT SERVICES

The Committee has reviewed the Company's internal guidelines covering the type of non-audit work that can be carried out by the external auditor of the Company, in light of the regulation set out in the EU Audit Directive and Audit Regulation 2014 ("the Regulations").

The Regulations substantially curtail those non-audit services that can be provided by the auditor to the Company and in particular, prohibits all tax related services, including compliance services as well as general advice and all consultancy and advisory services. The Regulations require that Board approval is required if eligible non-audit services, such as due diligence and similar assurance services exceed 30% of the prior year Group audit fee and the Company may not allow eligible non-audit services to exceed 70% of the Group audit fee, calculated on a rolling three-year basis.

The Group Finance Director does not have delegated authority to engage the auditor to carry out any non-audit work, but must seek approval from the Chair of the Audit Committee.

Taxation services are not provided by the Group's current audit firm; a separate firm is retained to provide tax advice and any assistance with tax compliance matters generally. In addition, due diligence exercises on acquisitions and similar transactions are not provided by the auditor, but are placed with other firms.

The Group auditor is retained to carry out assurance services to the Committee in connection with "agreed upon procedures" on the Group's Half Year consolidated financial statements. With the exception of this work, PwC has not provided any non-audit services to the Company or its subsidiaries and has confirmed their independence to the Audit Committee. The fees for carrying out this work comprises the total non-audit fees of £15,000 set out in note 27 to the consolidated financial statements.

The Committee assures itself of the auditor's independence by receiving regular reports from the external auditor which provide details of any assignments and related fees carried out by the auditor in addition to their normal audit work and these are reviewed against the above guidelines. PwC has reconfirmed its independence for the current financial year.

FINANCIAL REPORTING AND SIGNIFICANT FINANCIAL JUDGEMENTS

As part of its monitoring of the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements and seeks support from the external auditor to assess them.

The Committee considered the matters set out below as being significant in the context of the consolidated financial statements for the year ended 30 September 2018. These were discussed and reviewed with management and the external auditor and the Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditor on the work they had performed to arrive at their conclusions and discussed in detail all material findings contained within the report.

Provisions for excess and slow moving inventory

The Committee reviewed the Report of the Group Finance Director that set out the gross balances by business, together with any related provision against the carrying value. The Committee reviewed the bases used to value and confirm existence of inventory held across the Group; they also considered the appropriateness of provisions held against the carrying value of inventory, having regard to the age and volumes of inventory, relative to expected usage. Following their review, which also included consideration of the external audit findings, the Committee concluded that the provision for excess and slow moving inventory is appropriate.

Impairment of goodwill

The Committee considered the carrying value of goodwill and the assumptions underlying the impairment review. The judgements in relation to goodwill impairment largely relate to the assumptions underlying the calculations of the value in use of the Cash Generating Unit ("CGU") being tested for impairment. These judgements are primarily the calculation of the discount rate, the achievability of management's forecasts in the medium term and the use of the long term growth rate. Following their review which also included consideration of the external audit findings, the Committee concurred with the conclusion that no impairment of goodwill is required.

AUDIT COMMITTEE REPORT CONTINUED

In addition to the above the Committee also seeks confirmation from the auditor that the Group's businesses follow appropriate policies to recognise material streams of revenue and their audit work carried out more generally has assessed any instances where management may be able to override key internal controls designed to guard against fraud or material misstatement. The auditor also reported to the Committee on other less material matters in relation to the recoverability of trade receivables, acquisition accounting, the valuation of the Group's defined benefit schemes and the classification and presentation of the CEO transition costs.

CHANGES IN ACCOUNTING STANDARDS

The Audit Committee reviewed the likely impact of adopting IFRS15 (revenue from contracts with customers) ahead of the implementation across the Group, which will be applicable for the year ending 30 September 2019. A report prepared by the Group Finance department on the potential impact of this standard on the Group's consolidated financial statements was submitted to the Committee during the year. This report was based on a detailed review carried out in conjunction with the Heads of Finance of the major businesses. This report identified that the new standard may affect some contracts for bundled goods and services in relation to reagent rental agreements in Diploma Healthcare Group, as well as preventive maintenance service and CEMS revenues in a1-CBISS. The amounts relating to these revenue streams were in aggregate less than 1% of total Group revenues. The bases applied to revenue recognition across the Group will continue to be monitored to ensure compliance with IFRS15.

The Audit Committee also noted initial project work being carried out by the Group Finance department on the impact of IFRS16 (leases) on the Group's consolidated financial statements, which will be applicable for the year ending 30 September 2020. This standard will affect Diploma in that all material operating leases (including properties) will be capitalised on the Balance Sheet and depreciated. The Group Finance department will again report formally in 2019 to the Committee on the potential implications on the consolidated financial statements from adopting this standard.

Further information on the impact of IFRS15 and IFRS16 is set out on pages 92 and 93.

TAX STRATEGY

The Committee noted that during the year, the Group tax strategy, including detailed tax policies, had been updated by the Head of Tax and Treasury and has been reviewed and approved by the Board.

RISK MANAGEMENT AND INTERNAL CONTROL

The principal risks and uncertainties that are currently judged to have the most significant impact on the Group's long term performance are set out in a separate section of the Strategic Report on Internal Control and Risk Management on pages 30 to 33.

The Committee is responsible for reviewing the effectiveness of the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has the necessary procedures in place to ensure that there is an ongoing process for identifying, evaluating and managing the principal risks to the Group. These procedures are in line with the Financial Reporting Council's guidance.

The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Company who are supported by members of the Executive Management Committee ("EMC") comprising of the heads of each business Sector and functional heads of Group FP&IS and Group Finance. The EMC and Executive Directors visit each operating unit on a regular basis and meet with both operational and finance management and staff.

Key financial and operational measures relating to revenue, cash and receivables are reported on a weekly basis. Detailed management accounts and KPIs are prepared monthly using a robust proprietary reporting system to collect and analyse financial data in a consistent format. Monthly results are measured against both budget and half year reforecasts which have been approved and reviewed by the Board. All capital expenditure above predefined amounts must be supported by a paper prepared by management.

All financial data is taken directly from the trial balance of each business held in their local ERP systems and reanalysed and formatted in a separate Group management reporting system, operated by the Group finance department. There is no rekeying of financial data and very limited use is made of spreadsheets by the Group businesses to report monthly financial results. The Group finance department continues to develop the functionality of this management reporting system to provide greater insights into the activities of the Group's businesses, both financial and operational. The Group's Internal Auditor regularly audits the base data at each business to ensure it is properly reported through to the Group management reporting system.

As part of the year end close process each business is required to complete a self-assessment that evaluates their financial control environment in their business, which is designed to identify weaknesses in controls. These assessments are critically reviewed by the Group's Director of Internal Audit and a summary for each business is prepared for the Audit Committee. In addition, senior management of each business are required to confirm their adherence with Group accounting policies, processes and systems of internal control by means of a representation letter addressed to the Audit Committee.

The Committee has reviewed the effectiveness of the Group's risk management and internal control systems for the period from 1 October 2017 to the date of this Report. Taking into account the matters set out on pages 30 to 33 relating to principal risks and uncertainties and the reports from the Director of Internal Audit, the Board, with the advice of the Committee, is satisfied that the Group has in place effective risk management and internal control systems.

INTERNAL AUDIT

The Group maintains a small Internal Audit department which reports directly to both the Group Finance Director and Chair of the Audit Committee. The department comprises a Group Director of Internal Audit, based at one of the Group's businesses in Minneapolis, US and a Group Senior Internal Auditor based at the Group's offices in London.

A full programme of Internal Audit visits has been completed during the year. The scope of work carried out by Internal Audit generally focuses on the internal financial controls and risk management procedures operating within each business, but was expanded this year to include regulatory & compliance reviews and business process improvement. In January, the

Group Director of Internal Audit presented his audit plan for the year to the Committee for their approval. Formal written reports are prepared on the results of each Internal Audit visit that set out internal control weaknesses/risks identified during their work, together with recommendations to improve the internal control environment and mitigate these weaknesses/risks. These reports are discussed with management of the business visited and are reviewed by the appropriate member of the Executive Management Committee.

At the end of the financial year, the Group Director of Internal Audit formally reports to the Committee on the results of the Internal Audit work carried out by his department during the year. The Committee reviews management's responses to matters raised, including the time taken to resolve such matters. The Audit Chair also meets separately with the Group Director of Internal Audit at least twice a year to review some of the department's reports and discuss their findings.

There were no significant or high risk matters identified in the internal audits undertaken during the current financial year. Several recommendations were made to the businesses in regards to implementing adequate and effective internal controls and procedures within the key processes related to their general IT and cybersecurity framework. The Group Director of Internal Audit also reported that good progress has been made with addressing those recommendations made in 2017 in connection with establishing and maintaining adequate segregation of duties within key process areas and more detailed employee expense reporting. It was also identified that further work is still required at some businesses to formalise and improve their inventory cycle count procedures.

The work of the Internal Audit department was also extended this year to review and report on progress made by Group businesses in ensuring that their internal control environment was sufficiently robust to resist cyber-attacks and that businesses have obtained or are seeking to obtain the Cyber-Essentials Basic certification. This work identified a number of instances where systems need to be upgraded and strengthened and these results were reported to the member of the EMC who has been given responsibility for managing and reporting to the Board on the Group's cybersecurity status.

The Internal Audit department also continues to monitor the businesses compliance with Group policies on anti-bribery/corruption and sanctions.

The Committee conducted the annual review of the effectiveness of the Internal Audit department, including its terms of reference, audit plan, general performance and relationship with the external auditors. Based on its review the Committee was satisfied with the effectiveness of the Group's Internal Audit function, specifically the Committee is satisfied that the Internal Audit department is sufficiently independent of Executive management and has sufficient resources and scope that is appropriate for the size and nature of Diploma PLC.

SANCTIONS

The Audit Committee continued to work with senior management of the Company, in conjunction with local management of Kentek's Russian operations, to ensure ongoing compliance with EU and US led sanctions. The Committee has received reports on compliance with these sanctions and will continue to monitor developments until the sanctions are suspended or revoked.

ANTI-BRIBERY AND CORRUPTION

Diploma PLC maintains a Group-wide policy on anti-bribery/corruption that addresses the requirements of the Bribery Act 2010. The Committee periodically reviews this policy and the procedures to ensure continued and effective compliance in its businesses around the world. During the year, the Group rolled out a refresher using an E-learning training programme to all its business. This training has been undertaken by all senior management and employees in customer or supplier facing roles and in particular by management and employees from companies that have recently joined the Group.

WHISTLEBLOWING

The Committee also monitors the Group's whistleblowing policy, which provides the framework to encourage and give employees confidence to "blow the whistle" and report irregularities. The policy, together with hotline posters are placed on site noticeboards across the Group. Employees are encouraged to raise concerns via the confidential multilingual hotline, which is managed by an independent external company and is available 24/7, 365 days a year. Reports to the hotline are investigated and reported to the Committee, together with details of corrective action taken. The Group received three such whistleblowing reports during the year, which on further investigation were found to be personal grievance matters. On further review and investigation, the Committee concluded that two of these reports related to grievance issues in the workplace and the third report comprised concerns that on investigation were not substantiated. All three cases reported to the Committee were satisfactorily resolved.

NOMINATION COMMITTEE REPORT

Members of Committee	Attendance
John Nicholas (Chairman)	4/4
Charles Packshaw	4/4
Andy Smith	4/4
Anne Thorburn	4/4

The Nomination Committee is chaired by John Nicholas, Chairman of the Company. The Committee is chaired by the Senior Independent Director on any matters concerning the Chairman of the Company. The Committee comprises the non-Executive Directors and meets as necessary to discharge its responsibilities.

The Group Company Secretary acts as Secretary to the Committee.

RETIREMENT AND APPOINTMENT OF CHIEF EXECUTIVE OFFICER ("CEO")

The Committee has focused this year on the appointment of a new CEO, following the announcement on 26 September 2017 that Bruce Thompson intended to retire as CEO of Diploma PLC during 2018 and leave the Company on 30 September 2018. The recruitment process to appoint a new CEO commenced in the second half of 2017 and was described in last year's Committee report. In summary, a thorough process was undertaken with the assistance of Ridgeway Partners ("Ridgeway"), a search consultancy which did not have any other connections with the Company.

In particular:

- a detailed specification for the role was prepared against which potential candidates were considered;
- Ridgeway provided a long list of potential candidates to the Committee in October 2017;
- a shortlist of candidates was then selected based on both their desire to be considered for the role and on the Committee's assessment of their career background and experience;
- after an initial interview with the Chairman, three preferred candidates were selected by the Committee to go forward for formal interview;
- the interview process was led by the Chairman and Senior Independent Director; the candidates were also interviewed by the other non-Executive Directors and by the outgoing CEO and the Group Finance Director. Character references and psychometric tests were also undertaken on each candidate;
- a preferred candidate recommendation was made by the Committee in December 2017; and
- a sub-Committee met with the preferred candidate, to negotiate a remuneration package within the Directors' Remuneration Policy and the range recommended by the Remuneration Committee. The Committee subsequently made a recommendation to the Board to appoint Richard Ingram, which the Board approved. Richard Ingram joined the Board as Chief Executive Officer designate on 23 April 2018 and became Chief Executive Officer on 8 May 2018.

Richard Ingram stepped down as CEO and Executive Director on 28 August 2018 and left the Company. John Nicholas was appointed by the Board as interim Executive Chairman and will remain in this role until a new CEO is appointed.

Following Richard Ingram's departure, the Nomination Committee commenced a new process to find a permanent replacement CEO. Korn Ferry, a search consultancy, was appointed to assist with the process. Korn Ferry does not provide any other services to and has no other connection with the Company. The Committee will follow a similar appointment process as adopted in 2017, amended to reflect shareholder feedback and Committee review. As at the date of this report, the process remains ongoing and the Board will make an announcement when an appointment decision has been finalised.

SUCCESSION PLANNING

The Committee formally reviews succession planning for the Executive Board at least once each year, taking into account the challenges and opportunities facing the Group and the background skills and expertise that will be required by the Board in the future. As part of this exercise, development plans are also discussed and agreed to identify potential successors considered for appointment to the Board from within senior management within the Group.

In January each year, the Committee also reviews succession planning risks and opportunities in relation to the Company's senior executives, which comprise a cadre of ca. 100 senior managers across the Group's businesses.

The Committee regularly reviews the succession planning for non-Executive Directors. The Committee is committed to a programme of reviewing and refreshing the non-Executive Directors on the Board to ensure there is sufficient balance between the introduction of fresh perspectives and maintaining continuity and stability. The Committee intends to pursue a phased transition of non-Executives in order to avoid wholesale changes to the make-up of the Board over the next few years.

As part of the review of the composition of the Board and the succession planning process set out above, both the Board and the Committee recognise the importance of pursuing opportunities for both gender and ethnic diversity throughout the Group. The Board's commitment to gender and ethnic diversity is set out on page 40.

Non-Executive tenure as at 30 September 2018

COMMITTEE EVALUATION

As explained on page 41, an external evaluation of the performance of the Committee and its members was undertaken during the year. The Chairman and Company Secretary were asked to prepare an action list and timetable for the Committee to implement key recommendations arising from this exercise, although the evaluation confirmed that the Committee was operating effectively.

KEY DUTIES AND FOCUS IN 2018

The Committee reviews the composition of the Board and principal Committees, considering skills, knowledge, experience and diversity requirements before making appropriate recommendations to the Board as to any changes. It also manages succession planning for Directors and other Senior Executives and is responsible for reviewing the Group's senior leadership needs.

The Committee's role and responsibilities are set out in its Terms of Reference, which are reviewed every two years and approved by the Board. The Terms of Reference are available at www.diplomaplc.com/governance/constitutional-documents.

The Committee's key focus areas during the year have been the CEO succession, leadership development and executive succession planning.

REMUNERATION COMMITTEE REPORT

"OUR REMUNERATION POLICY ALIGNS WITH BEST PRACTICE AND PROVIDES A STRONG BASIS FOR LINKING DIPLOMA'S STRATEGY AND PERFORMANCE TO EXECUTIVE REMUNERATION"

Andy Smith, Chairman of the Remuneration Committee

Members of Committee	Attendance
Andy Smith (Chairman)	6/6
Anne Thorburn	6/6
John Nicholas (until 31 August 2018)	6/6
Charles Packshaw	6/6

DEAR SHAREHOLDER

This is the first year of the new Remuneration Policy ("the Policy") that shareholders adopted at this year's AGM. I am pleased to report that the Policy has worked well and continues to align with latest best practice. Company performance has once again been very strong this year as management continue to successfully execute the Company's strategy.

The Committee set the trigger for maximum payment under the annual performance bonus plan at 10% adjusted operating profit growth on a constant currency basis. In the year, the Company delivered an impressive 11.7% on this measure. Accordingly, Executives were awarded maximum payment.

Long term performance has been impressive too. The long term incentive plan targets relate to annual growth in earnings per share ("EPS") and relative total shareholder returns ("TSR") compared with the FTSE250 (excluding investment trusts) over a three-year period. To achieve the maximum award, Executives needed to achieve a minimum 14% EPS growth and 14.4% TSR in each of the three years of the performance period. They achieved 13.9% and 25.9% respectively, which translated into a payment of 99.6% of the maximum award under the long term incentive plan. The Committee is content that there is a strong alignment between performance delivery and these awards.

This year's Annual Report on Remuneration is set out in full on pages 51 to 63 of the Annual Report & Accounts and reflects the Remuneration Policy approved by shareholders in 2018. There were three matters, both relating to CEO remuneration that required careful judgement of the Committee in its application of the Policy.

The Company said farewell this year to Bruce Thompson, former CEO, after 22 years. The Committee had no hesitation in acknowledging Bruce's long and outstanding service for the Company during which he shaped Diploma into the Company it is today and consistently delivered excellent value for shareholders. Full details are available on page 56 but, in summary, the Committee treated him as a good leaver and approved early-vesting of his long term incentives, appropriately performance-tested and pro-rated for time served.

The Committee developed and approved a competitive package for Richard Ingram to attract him to join the Company as CEO. In line with the Policy, this took account of the remuneration package he had received in his former employment. When he stepped down from the Company, the Committee carefully and thoroughly considered its obligations to shareholders with specific reference to the Policy and the legal and contractual commitments made to Richard Ingram. The Committee approved payments to him under a settlement agreement that were in line with the Policy and were no more than was fair and reasonable in the circumstances. Details are set out on pages 56 and 57.

The Committee also considered the exceptional circumstances that will prevail whilst the Company works through the recruitment, appointment and on-boarding of a new CEO and in particular, the significant additional load and responsibility that will fall to the Group Finance Director. The Committee believes that it is in shareholders' interests to grant an LTIP award in 2019 of 225% of salary as allowed by Policy in such exceptional circumstances.

Base salaries for the new financial year (that is, from 1 October 2018) will increase by 3.0% (2017: 3.0%) for Executive Directors and by 4.5% across the senior management cadre. This reflects general pay inflation in the geographies the Company operates in.

Executive remuneration continues to attract attention, analysis and debate. The Committee will continue to note emerging views and trends and take an active role in reviewing the overall remuneration at senior levels in the organisation to ensure that they remain consistent with the actual performance delivered and are effective in attracting and retaining talent for the Group.

The Report of the Remuneration Committee was approved by the Board on 19 November 2018.

I look forward to meeting shareholders at this year's AGM on 16 January 2019 and will be pleased to answer any questions or concerns they have on the Company's remuneration policies.

Andy Smith
19 November 2018

REMUNERATION COMMITTEE REPORT CONTINUED

REMUNERATION COMMITTEE

The Remuneration Committee ("the Committee") is chaired by Andy Smith and comprises independent non-Executive Directors. John Nicholas stepped down from the Committee on 31 August 2018, following his appointment as interim Executive Chairman.

The interim Executive Chairman/Chief Executive Officer attends meetings at the invitation of the Committee to provide advice to the Committee to help it make informed decisions. The Group Company Secretary attends meetings as Secretary to the Committee.

THE REMUNERATION COMMITTEE REPORT

The Report has again been presented this year in two sections. The first section repeats the key elements of the Director's Remuneration Policy, which was approved by shareholders at the AGM on 17 January 2018. This Policy, which was set out in the 2017 Annual Report, will continue for a period of three years until 16 January 2021, unless replaced or amended by a new Policy.

The second section of this Report sets out the annual remuneration paid to the Directors in the year ended 30 September 2018 in accordance with the Policy approved on 17 January 2018. This section of the Report will continue to be subject to an advisory vote by shareholders at the AGM.

REMUNERATION PRINCIPLES AND STRUCTURE

The Committee has adopted remuneration principles which are designed to ensure that senior executive remuneration:

- is aligned to the business strategy and promotes the long term success of the Company;
- supports the creation of sustainable long term shareholder value;
- provides an appropriate balance between remuneration elements and includes performance-related elements that are transparent, stretching and rigorously applied;
- provides an appropriate balance between immediate and deferred remuneration; and
- encourages a high-performance culture by ensuring performance-related remuneration constitutes a substantial proportion of the remuneration package and by linking maximum payout opportunity to outstanding results.

The Policy Table set out on the next page summarises the components of reward for the Executive Directors of Diploma PLC that will govern the Company's intentions as regards future payments. More detailed descriptions of the incentive plans are given in the following sections.

There have been no changes made to this Policy since it was approved by shareholders at the AGM on 17 January 2018.

KEY DUTIES AND FOCUS IN 2018

The Remuneration Committee agrees, on behalf of the Board, all aspects of the remuneration of the Executive Directors and the Executive Committee, and agrees the strategy, direction and policy for the remuneration of the senior executives who have a significant influence over the Group's ability to meet its strategic objectives.

The Committee's role and responsibilities are set out in its Terms of Reference, which are reviewed annually and approved by the Board. The Terms of Reference are available on Diploma PLC's website at www.diplomaplc.com/governance/constitutional-documents.

The Committee's key responsibilities and focus during the year have been:

- Reviewed Executive Directors' salaries, pensions and benefits.
- Approved Annual Performance Bonus targets and the subsequent bonus awards for 2018.
- Approved new PSP awards to Executive Directors and confirmed the performance conditions for such awards.
- Approved Recruitment Award Agreement and Long Term Incentive Award for new CEO.
- Approved retirement arrangements for Bruce Thompson.
- Approved remuneration aspects relating to the termination of Richard Ingram's employment.
- Accepted resignation of John Nicholas from the Remuneration Committee and approved interim Executive Chairman fees.
- Confirmed the vesting percentages for the PSP awards made in December 2015 which crystallised in 2018.
- Approved the exercise of nil cost options.
- Approved the 2018 Remuneration Committee Report.
- Reviewed the AGM 2018 votes on the 2017 Remuneration Committee Report and the 2018 Policy.
- Reviewed remuneration of senior management in the operating businesses.
- Approved updates to the rules of the Long Term Incentive Plan, required by the adoption of the new Policy and for new legislation (i.e. General Data Protection Regulation).
- Maintained watching brief on external reports on Directors' remuneration.
- Approved Remuneration Committee work programme for 2018.

DIRECTORS' REMUNERATION POLICY

THE REMUNERATION POLICY TABLE

The Remuneration Policy Table set out below summarises the components of reward for the Executive Directors of Diploma PLC that will govern the Company's intentions as regards future payments of remuneration until 16 January 2021, unless replaced or amended by a new Policy.

Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary	To attract and retain people of the calibre and experience needed to develop and execute the Company's strategy.	Salaries are reviewed annually, with changes normally effective from 1 October.	There is no maximum limit set. Salaries are targeted at a mid-market range for equivalent roles in similar companies. Salary increases will generally be no higher than those awarded to other employees, although the Committee retains discretion to award larger increases if it considers it appropriate.	Salary levels and increases are determined based on a number of factors, including individual and business performance, level of experience, scope of responsibility, salary increases both for UK employees and for the senior management cadre more generally and the competitiveness of total remuneration against companies of a similar size and complexity.
Pensions	Designed to be competitive within the market to reward sustained contribution by Executive Directors.	Pension contributions up to 20% of base salary, which are either paid into personal pension savings schemes or paid as a separate cash allowance.	No maximum limit set.	No performance metric.
Benefits	To provide a competitive package of benefits.	Includes various cash/non-cash benefits such as: payment in lieu of a company car, life assurance, income protection, annual leave, medical insurance.	No maximum limit is prescribed, but the Committee monitors annually the overall cost of the benefit provision.	No performance metric.
Annual Performance Bonus Plan	To incentivise and reward Executive Directors on the achievement of the annual budget and other business priorities for the financial year.	Provides an opportunity for additional reward based on annual performance against targets set and assessed by the Committee. Where shareholding guidelines have not been met, half of any annual bonus awarded (net of tax) will be deferred in shares for up to three years, but will remain eligible for dividends. The remaining bonus shall be paid in cash following the relevant year end. Malus and clawback provisions apply.	Maximum of 125% of base salary for the Chief Executive Officer and 100% for other Executive Directors. Performance below threshold results in zero payment. On-target bonus is 50% of maximum bonus and threshold performance is 5% of base salary.	Performance metrics are selected annually based on the current business objectives. The majority of the bonus will be linked to financial performance. For FY2018, bonuses are based on adjusted operating profit (as defined in note 2 to the consolidated financial statements) on a constant currency basis. Discretion to reduce awards if satisfactory threshold levels are not achieved for adjusted operating margin, free cash flow or ROATCE. Different performance measures, including personal objectives, may be used for future cycles to take into account changes in the business strategy. Personal objectives, if used, will account for no more than 20% of the bonus.

REMUNERATION COMMITTEE REPORT CONTINUED

DIRECTORS' REMUNERATION POLICY CONTINUED

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Long Term Incentive Plan – PSP Awards	Align Executive Directors to the Company's long term strategy and incentivise Executive Directors to achieve superior returns and long term value growth for shareholders.	Performance assessed over rolling three-year performance periods. Awards are discretionary and do not vest until the date on which the performance conditions are determined. If employment ceases during a three-year performance period, other than in the case of a "good leaver", awards will normally lapse. For awards granted after the adoption of the new Policy on 17 January 2018, Executive Directors will be required to retain shares vesting under the LTIP (net of tax) until the fifth anniversary of grant. Awards may include dividend equivalents, which are cash bonuses or shares in lieu of dividends forgone on vested shares, from the time of award up to the time of vesting. Malus and clawback provisions apply.	The maximum opportunity as a percentage of salary is 175% for each award made to the Executive Directors under the 2011 Performance Share Plan ("PSP"). The Committee has discretion to increase awards under the PSP to 250% of salary in exceptional circumstances. No more than 25% of the award will be payable at threshold performance.	Awards will be granted subject to a combination of financial measures (including, for example, adjusted EPS, ROATCE and TSR), tested over a period of at least three years. The Committee may change the weighting of the performance measures or introduce new performance measures for future awards, so that they are aligned with the Company's strategic objectives.

Chairman and non-Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Chairman and non-Executive Directors' fees	To attract and retain a Chairman and independent non-Executive Directors of the required calibre and experience.	Paid quarterly in arrears and reviewed each year. Any reasonable business related expenses (including tax thereon) can be reimbursed.	The Chairman's and non-Executive Directors' fees are determined by reference to the time commitment and relevant benchmark market data.	Annual Board evaluation.

EXECUTIVE DIRECTORS

Base salary

In determining the annual base salary increases that apply from 1 October, the Committee considers comparative salaries in companies of a similar size and complexity and the range of remuneration increases applying across the Group.

The Committee also takes into account the salary increases applying across the senior management cadre. This comparator group comprises ca. 100 senior managers across the Group's businesses. This senior management cadre has been chosen as a representative group, as it provides a meaningful comparison considering the global and diverse nature of the Group's business.

Annual performance bonus

The Diploma PLC Annual Performance Bonus Plan is substantially a cash based scheme designed to reward Executive Directors for meeting stretching annual performance targets.

Under the new Policy approved by shareholders at the AGM on 17 January 2018, the previous financial performance target of "adjusted EPS" was replaced by "Group adjusted operating profit" that is calculated on a basis that excludes the impact of currency on the translation of Group adjusted operating profit. The replacement performance target applies to the financial year ended 30 September 2018 and thereafter.

At the start of the financial year (1 October), the Board sets a financial performance target principally focused on achievement of a target Group adjusted operating profit. Adjusted operating profit is calculated on a constant currency basis. The level of bonus payable for achieving the minimum target is 5% of base salary. No bonus is payable if performance does not meet the minimum target.

The definition of adjusted operating profit is consistent with the Group's financial statements (see note 2). However, the Committee has discretion to modify the definition in the event of changes in accounting policy and/or material operational, market, exchange rate or environmental factors in order to more appropriately reflect management performance. The Committee has discretion to reduce awards if minimum thresholds are not achieved for adjusted operating margins, free cash flow and return on adjusted trading capital employed ("ROATCE"). Where used, the rationale for the exercise of this discretion will be disclosed in the next Remuneration Committee Report.

Different performance measures may be used for future cycles of the Annual Performance Bonus Plan to those set out in the Policy Table to take into account changes in the business strategy.

While retaining flexibility under the Policy, in relation to the setting of individual objectives, the bonus payable for the financial year ending 30 September 2018 and thereafter is based solely on adjusted operating profit on a constant currency basis.

At the end of the financial year, the Committee meets to assess the performance of each Executive Director against the bonus targets. Bonuses are normally paid in cash in December.

The Policy requires that 50% of any bonus awarded for the financial year ending 30 September 2018 or thereafter, is deferred on a net of tax basis into shares until minimum shareholding guideline levels, set at 200% of base salary for Executive Directors under the Policy, have been met.

Long term incentive award

The Company operates a long term incentive award plan for Executive Directors, the Diploma PLC 2011 Performance Share Plan ("PSP"). The PSP is designed to promote the long term success of the Company, while also aligning the Directors' interests with those of Diploma PLC shareholders.

The PSP provides for a grant of conditional awards of a specified number of ordinary shares in the Company, or an option to acquire a specified number of shares at an exercise price determined by the Committee (which may be nil or a nominal amount). No payment is required for the grant of an award.

Awards, which are normally granted annually, must generally be made within 42 days after the announcement of the Company's annual results. When making the decision on the level of award, the Committee takes into consideration a number of factors, including the face value of the award and plan dilution limits.

The face value of an award is equal to the number of shares, or shares under option, multiplied by the relevant share price. The relevant share price will be the mid-market closing share price on the dealing day before the award. A face value limit of 175% of base salary applies to each PSP award to Executive Directors, although the Committee, at its discretion, may increase the face value of an award to a maximum of 250% in exceptional circumstances.

All awards will normally vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period. The vesting of awards is conditional on:

- continued employment;
- the Company's growth in adjusted EPS over a three-year performance period; and
- the Company's TSR performance over a three-year performance period.

The latter two performance conditions apply to each award so that the vesting of 50% of the award is based on growth in adjusted EPS and 50% of the award is based on the relative TSR performance. These measures align with our long term goal of value creation for shareholders through underlying financial growth and above-market shareholder returns.

Each performance condition is measured over a three-year period commencing on the first day of the financial year in which the award is made. There is no retesting of the performance metrics. At the minimum performance threshold, 25% of the PSP awards will vest.

The Committee will regularly monitor the continuing suitability of the performance conditions and may impose different performance conditions or targets for awards granted in subsequent years, to align with the Company's strategic objectives and having regard to prevailing market practice.

The Committee may decide, on or before the grant of a share incentive award, that on exercise of the award, the participants may receive, in addition to the shares in which they then become entitled, a dividend equivalent in respect of the dividends (excluding any tax credit) which would have been paid to the participant in respect of shares vesting between the date of the award and the time of vesting. These dividend equivalent payments may be made in cash or in an equivalent number of shares.

For awards granted after 17 January 2018, Executive Directors will be required to retain shares vesting under the LTIP (net of tax) until the fifth anniversary of grant ("the Holding Period"), to reflect developments in best practice and the Committee's continued focus on long term shareholder alignment. The Holding Period shall expire on the earliest of:

- the fifth anniversary of the date of grant of an award;
- the date of a change of control event;
- the death of the participant; or
- such other date as determined by the Committee in its discretion.

REMUNERATION COMMITTEE REPORT CONTINUED

DIRECTORS' REMUNERATION POLICY CONTINUED

Service contracts

The Executive Directors' service contracts, including arrangements for early termination, are carefully considered by the Committee and are designed to recruit, retain and motivate Directors of the calibre required to manage the Company and successfully deliver its strategic objectives.

The Committee considers that a rolling contract with a notice period of one year is appropriate for existing and newly appointed Directors.

The Executive Directors' service contract, a copy of which is held at the Company's registered office, was updated in March 2014 to recognise developments in law and best practice relating to such contracts. This service contract, together with any service contract for new appointments, contains provisions for compensation in the event of early termination or change of control, equal to the value of salary and contractual benefits for the Director's notice period. The Company may make a payment in lieu of notice in the event of early termination and the Company may make any such payment in instalments with the Director being obliged in appropriate circumstances to mitigate loss (for example by gaining new employment).

The Committee considers that these provisions assist with recruitment and retention and that their inclusion is therefore in the best interests of shareholders.

Details of the service contracts of the Executive Directors who served during the year are set out below:

	Contract date	Unexpired term	Notice period	Compensation payable upon early termination
Bruce Thompson	20 Mar 2014	Retired, 8 May 2018	1 year	1 year
Richard Ingram	29 Jan 2018	Left, 28 Aug 2018	1 year	1 year
John Nicholas[1]	29 Aug 2018	Rolling	1 month	1 month
Nigel Lingwood	20 Mar 2014	Rolling	1 year	1 year

1 John Nicholas was appointed interim Executive Chairman following the departure of Richard Ingram as Chief Executive Officer on 28 August 2018.

OTHER REMUNERATION POLICIES

Payment for loss of office

The Committee has considered the Company's policy on remuneration for Executive Directors leaving the Company and is committed to applying a consistent approach to ensure that the Company pays no more than is fair and reasonable in the circumstances.

The loss of office payment policy is in line with market practice and will depend on whether the departing Executive Director is, or is deemed to be treated as, a "good leaver" or a "bad leaver". In the case of a good leaver the Policy includes:

- Notice period of 12 months' base salary, pension and contractual benefits or payment in lieu of notice.
- Bonus payable for the period worked, subject to achievement of the relevant performance condition. Different performance measures (to the other Executive Directors) may be set for a departing Director as appropriate, to reflect any change in responsibility.
- Vesting of award shares under the Company's LTIP is not automatic and the Committee would retain discretion to allow partial vesting depending on the extent to which performance conditions had been met and the length of time the awards have been held. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances. For awards granted prior to 17 January 2018, performance will be measured to the date of cessation of employment and, to the extent applicable, vest shortly thereafter. For awards granted after the adoption of the new Policy on 17 January 2018, performance will be measured to the end of the normal performance period and, to the extent applicable, vest on the normal vesting date, save in exceptional circumstances when the Committee may determine that early vesting should still apply.
- The Committee will provide for the leaver to be reimbursed for a reasonable level of legal fees in connection with a settlement agreement.

When calculating termination payments, the Committee will take into account a variety of factors, including individual and Company performance, the obligation for the Executive Director in appropriate circumstances to mitigate loss (for example, by gaining new employment) and the Executive Director's length of service.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Change of control

Change of control provisions provide for compensation equal to the value of salary and contractual benefits for the notice period. In the event of a change in control, vesting of an award of shares under the Company's PSP depends on the extent to which performance conditions had been met at that time. Time pro-rating may be disapplied if the Committee considers it appropriate, given the circumstances of the change of control.

Malus and clawback

Malus provisions apply to all awards made under the Company's long term incentive and annual bonus plans, which give the Committee the right to cancel or reduce unvested share awards (or in the case of the Annual Performance Bonus Plan, cash payments) in the event of material misstatement of the Company's financial results, miscalculation of a participant's entitlement or individual gross misconduct.

Clawback arrangements, which also apply to all awards made under the Company's long term incentive and annual bonus plans, permit the Committee to recover amounts paid to Executive Directors in specified circumstances to safeguard shareholders' interests.

Remuneration for new appointments

The Committee has determined that new Executive Directors will receive a compensation package in accordance with the terms of the Group's approved Policy in force at the time of appointment.

The Committee has agreed the following principles that will apply when arranging a remuneration package to recruit new Executive Directors:

- The remuneration structure will be kept simple where practicable, hence the use of base salary, benefits, pension (or cash allowance in lieu), annual performance bonus and long term incentives.
- The emphasis on linking pay with performance shall continue; hence the use of variable pay in the form of an annual performance bonus and a long term incentive award, which will continue to be a significant component of the Executive Directors' total remuneration package.
- Initial base salary will take into account the experience and calibre of the individual and their existing remuneration package. Where it is appropriate to offer a lower salary initially, a series of increases to the desired salary positioning may be given over subsequent years subject to individual performance.

- The structure of variable pay will be in accordance with Diploma's approved Policy, set out above, with an exceptional maximum aggregate variable pay opportunity of 375% of salary. Different performance measures may be set in the first year for the annual bonus, taking account of the responsibilities of the individual and the point in the financial year that the executive joined the Company.
- Benefits will generally be provided in accordance with the approved Policy, with relocation expenses and an expatriate allowance paid if appropriate.
- In the case of an external recruitment, the Committee may also offer additional cash and/or share-based elements when it considers these to be in the best interests of Diploma and shareholders, to replace variable remuneration awards or arrangements that an individual has foregone in order to join the Group. This includes the use of awards made under section 9.4.2 of the UK Listing Rules. Any such payments would take account of the details of the remuneration foregone including the nature, vesting dates and any performance requirements attached to that remuneration and any payments would not exceed the expected value being forfeited.
- In the case of an internal appointment, any outstanding variable pay awarded in relation to the previous role will be allowed to pay out according to the terms of grant.
- For all new Executive Director appointments, the mandated shareholding guidelines, deferral of annual performance bonus and the Holding Period for LTIP awards will apply in accordance with the Policy and the relevant Plan rules.
- Fees for a new Chairman or non-Executive Director will be set in line with the approved Policy.

Committee discretion

The Committee operates the Annual Performance Bonus Plan and the LTIP in accordance with the relevant plan rules and where appropriate, the Listing Rules and HMRC legislation. As a matter of course, the Committee will normally seek to avoid the use of discretion. However in order to ensure that outcomes are always in the interests of shareholders, the Committee retains discretion over a number of areas relating to the operation and administration of the plans. These include, the timing of awards and of the setting of performance criteria each year, dealing with leavers, discretion to waive or shorten the Holding Period for shares acquired under the LTIP, the discretion to retrospectively amend performance targets in exceptional circumstances and in respect of share awards, to adjust the number of shares subject to an award in the event of a variation in the share capital of the Company. The Committee will exercise its powers in accordance with the terms of the relevant plan rules. The Committee also has discretions to set components of remuneration within a range from time to time as set out in the maximum opportunity sections of the Policy Table.

Dilution

In any ten-year period, the number of shares which are or may be issued under option or other share awards under any discretionary share plan established by the Company may not exceed 5% of the issued ordinary share capital of the Company from time to time. In any ten-year period, the aggregate number of shares that are or may be issued under option, or other share awards under all share plans established by the Company, may not exceed 10% of the issued ordinary share capital of the Company, from time to time.

Consultation with shareholders and employees

The Committee will consult with its major shareholders in advance of any significant changes to the approved Policy or exercise of discretion, as appropriate, to explain their approach and rationale fully and to understand shareholders' views. Additionally, the Committee considers shareholder feedback received in relation to each AGM alongside any views expressed during the year. The Committee also reviews the executive remuneration framework in the context of published Investor Guidelines.

The Committee does not consult directly with employees when formulating the Policy for Executive Directors.

Policy in respect of external board appointments for Executive Directors

The Committee recognises that external non-Executive directorships may be beneficial for both the Company and the Executive Director. At the discretion of the Board, Executive Directors are permitted to retain fees received in respect of any such non-Executive directorship.

Shareholding guidelines

The Committee has adopted guidelines for Executive Directors, to encourage substantial long term share ownership. These specify that, over a period of five years from the date of appointment, each Executive Director should build up and then retain a holding of shares with a value equivalent to 200% of base salary. The guidelines also require that, in relation to long term incentive awards, vested shares (net of tax) must be retained by the individual until the required shareholding level is reached.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS

Recruitment and term

The Board aims to recruit non-Executive Directors of a high calibre, with broad and diverse commercial, international or other relevant experience. Non-Executive Directors are appointed by the Board on the recommendation of the Nomination Committee. Appointments of the non-Executive Directors are for an initial term of three years, subject to election by shareholders at the first AGM following their appointment and subject to annual re-election thereafter. The terms of engagement are set out in letters of appointment that can be terminated by either party serving three months' notice.

Chairman

John Nicholas was appointed Chairman on 21 January 2015, having previously been the Senior Independent Director. His appointment is subject to annual re-election by shareholders at the AGM. John Nicholas was appointed interim Executive Chairman on 28 August 2018.

Chairman and non-Executive Directors' letters of appointment:

	Date of original appointment	Date of re-election	Expiry of term
John Nicholas	1 Jun 13	17 Jan 18	20 Jan 21
Charles Packshaw	1 Jun 13	17 Jan 18	1 Jun 19
Andy Smith	9 Feb 15	17 Jan 18	9 Feb 21
Anne Thorburn	7 Sep 15	17 Jan 18	7 Sep 21

Fees

The non-Executive Directors are paid a competitive basic annual fee, which is approved by the Board on the recommendation of the Chairman and the Executive Directors. The Chairman's fee is approved by the Committee, excluding the Chairman. Additional fees may also be payable for chairing a Committee of the Board or for acting as Senior Independent Director. The fees are reviewed each year and take account of the fees paid in other companies of a similar size and complexity, the non-Executive Directors responsibilities and the required time commitment.

If there is a temporary yet material increase in the time commitments for non-Executive Directors, the Board may pay extra fees on a pro-rata basis to recognise the additional workload. In 2018, the Board approved an additional fee of £144,600 per annum to be payable to the Chairman, while he serves as interim Executive Chairman.

The non-Executive Directors are not eligible to participate in any of the Company's share plans, incentive plans or pension schemes and there is no provision for payment in the event of early termination.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION

The following section of this Report provides details of the implementation of the existing Remuneration Policy for the Executive Directors for the years ended 30 September 2018 and 2017. All of the information set out in this section of the Report has been audited, unless indicated otherwise.

EXECUTIVE DIRECTORS

Total remuneration in 2018 and 2017

	John Nicholas[1]	Richard Ingram[2]	Bruce Thompson[3]		Nigel Lingwood	
	2018 £000	**2018 £000**	**2018 £000**	2017 £000	**2018 £000**	2017 £000
Fees/Salary	**14**	**191**	**303**	486	**323**	314
Benefits	**–**	**9**	**15**	24	**18**	18
Pension	**–**	**35**	**61**	97	**65**	63
Annual performance bonus	**–**	**–**	**625**	607	**323**	310
Short term remuneration (cash)	**14**	**235**	**1,004**	1,214	**729**	705
Long term incentive plans – dividend equivalent (cash)	**–**	**–**	**102**	43	**46**	28
Long term incentive plans – performance element (non-cash)	**–**	**–**	**1,677**	714	**534**	461
Long term incentive plans – share appreciation element (non-cash)	**–**	**–**	**1,059**	287	**501**	186
Total long term share price based remuneration (non-cash)	**–**	**–**	**2,736**	1,001	**1,035**	647
Total	**14**	**235**	**3,842**	2,258	**1,810**	1,380

1 John Nicholas was appointed interim Executive Chairman on 28 August 2018. The fees above relate to his Executive service from 28 August to 30 September 2018; as interim Executive Chairman, John Nicholas is not entitled to benefits, pension, annual bonus or an LTIP. John Nicholas's fees for his role as non-Executive Chairman are set out on page 63.
2 Richard Ingram's salary, benefits and pension are for the period from appointment as Chief Executive Officer (designate) on 23 April 2018 to 28 August 2018, when he stood down as Chief Executive Officer and Executive Director and left the Company. Further details regarding his remuneration are set out below.
3 Bruce Thompson's salary, benefits and pension are for the period from 1 October 2017 to 8 May 2018, while he served as Chief Executive Officer and Executive Director of the Company. The table above includes his annual performance bonus and the full value of all long term incentive awards that vested at 30 September 2018. Bruce Thompson's salary for the period from 9 May 2018 to 30 September 2018 was £197,000.

The aggregate short term remuneration paid to Executive Directors in the year ended 30 September 2018 was £2.0m (2017: £1.9m).

RETIREMENT OF BRUCE THOMPSON

Bruce Thompson retired as Chief Executive Officer and as an Executive Director of the Company on 8 May 2018; he retired as an employee of the Company on 30 September 2018. Bruce Thompson was treated as a "good leaver" as he had played the leading role in developing and implementing the successful growth strategy of the Group over many years. Bruce Thompson's long term incentive awards vested to the extent to which the applicable performance conditions were met. These awards were pro-rated for time served, (that is, two out of three years and one out of three years for awards that would, but for his retirement, have vested at 30 September 2019 and 30 September 2020, respectively). The vesting of these awards was based on the testing of the performance criteria for the year ended 30 September 2018.

REMUNERATION ARRANGEMENTS FOR RICHARD INGRAM

Appointment

On 23 April 2018, Richard Ingram joined the Board as Chief Executive Officer (designate). Bruce Thompson retired from the Board and handed over his Chief Executive Officer responsibilities to Richard Ingram at the close of the Board meeting on 8 May 2018.

Richard Ingram was to receive an annual salary of £535,000 and a pension allowance of 15% of base salary. Richard Ingram was also eligible to participate in both the Annual Bonus Plan (up to a maximum of 125% of base salary) and in the LTIP up to 175% of base salary. All of these remuneration arrangements are consistent with the terms of the Directors' Remuneration Policy approved by shareholders on 17 January 2018.

The Board also agreed in accordance with the Remuneration Policy to compensate Richard Ingram on his appointment as Chief Executive Officer to replace the balance of his existing incentives from his previous employment. To replace incentives relating to the year ended 30 September 2018, Richard Ingram was eligible for a performance bonus of £1.0 million before tax, of which up to 40% was payable in cash and the balance in the form of a nil cost option over Company shares. To replace incentives relating to the years ending September 2019 and September 2020, Richard Ingram was also eligible to receive a long term incentive award (nil cost option) over shares in the Company, on terms similar to the Company's LTIP, representing 116.7% and 175% of his base salary with vesting dependent upon performance conditions.

Departure and payment for loss of office

Richard Ingram stepped down from his role as Chief Executive Officer and Executive Director and left the Company on 28 August 2018. The financial terms below were agreed with Richard Ingram in a settlement agreement dated 8 November 2018. These payments are in accordance with the shareholder approved Remuneration Policy and the Company is honouring its contractual commitments.

The following arrangements will apply in respect of Richard Ingram's notice period:

- Richard Ingram will receive the sum of £507,200 as a payment in lieu of his unworked contractual notice period. A 20% deduction was applied to the full 12 month notice entitlement (£634,137) by way of mitigation.

Other terms agreed with Richard Ingram in November 2018, which were the subject of careful consideration by the Remuneration Committee were as follows:

- an additional exit payment of £360,000 by way of settlement of potential claims by Richard Ingram for loss of bonus and incentive opportunities; and
- a contribution of £20,000 (plus VAT) towards Richard Ingram's legal fees incurred in connection with the above arrangement.

No other payments were made to Richard Ingram under either the annual performance bonus plan, the long term incentive award or the recruitment award, all of which lapsed as at 30 September 2018.

EXECUTIVE DIRECTORS' OTHER ROLES

John Nicholas is non-Executive Chairman of Porvair plc and received fees of £8,804 for the period from 28 August 2018 to 30 September 2018. Bruce Thompson was appointed non-Executive Director of DiscoverIE Group plc on 26 February 2018 and received fees of £8,914 during the period from 26 February 2018 to 8 May 2018.

Base salary

The average base salary increase for Executive Directors which applied from 1 October 2017 was 3.0%, compared with 6.5% for the Group's senior management cadre. On 13 November 2018, the Committee approved an increase of 3.0% in base salary for the interim Executive Chairman and the Group Finance Director that will apply in respect of the year commencing 1 October 2018 which compares with 4.5% for the Group's senior management cadre.

Benefits

	2018				2017			
	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000	Cash allowance in lieu of a car £000	Life assurance and income protection £000	Medical insurance £000	Total benefit £000
John Nicholas[1]	–	–	–	–	–	–	–	–
Richard Ingram[2]	5	3	1	9	–	–	–	–
Bruce Thompson[3]	9	4	2	15	13	7	4	24
Nigel Lingwood	11	6	1	18	11	6	1	18

1 John Nicholas is not entitled to benefits in his role as interim Executive Chairman.
2 Richard Ingram's benefits are for the period from 23 April 2018 to 28 August 2018.
3 Bruce Thompson's benefits are for the period from 1 October 2017 to 8 May 2018; his benefits for the period from 9 May 2018 to 30 September 2018 were £9,000.

Pension

The Executive Directors receive pension contributions from the Company, which they may pay into personal savings vehicles or may take as a separate cash allowance, subject to income tax.

Pension contributions were applied as follows:

	2018				2017		
	Contribution rate % of base salary	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000	Paid as cash allowance £000	Paid as pension contribution £000	Total cash paid £000
John Nicholas[1]	–	–	–	–	–	–	–
Richard Ingram[2]	15	35	–	35	–	–	–
Bruce Thompson[3]	20	61	–	61	97	–	97
Nigel Lingwood	20	65	–	65	63	–	63

1 John Nicholas is not entitled to a pension contribution in his role as interim Executive Chairman.
2 Richard Ingram's pension contributions are for the period from 23 April 2018 to 28 August 2018.
3 Bruce Thompson's pension contributions are for the period from 1 October 2017 to 8 May 2018; his pension contributions for the period from 9 May 2018 to 30 September 2018 were £39,000.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Annual performance bonus

The following table summarises the performance assessment by the Committee in respect of 2018 with regard to the Group financial objectives:

Performance measure	Performance in 2018	Overall assessment against targets
Adjusted Operating Profit (on a constant currency basis)	The minimum performance target was equal to the 2017 adjusted Operating Profit (as defined in note 2 to the consolidated financial statements) on a constant currency basis. The on-target performance was equal to the FY2018 budget (4% growth on 2017). The maximum target was at least 10% growth above 2017 adjusted Operating Profit. Adjusted Operating Profit (on a constant currency basis) grew by 11.7%. Minimum thresholds were exceeded for adjusted operating margins, free cash flow and ROATCE.	100% of the maximum award

Based on the performance set out above, the resulting bonus for each Executive Director relating to 2018 is as follows:

	2018 actual bonus – as a percentage of 2018 base salary					2018 bonus delivered as cash
	Minimum	On-target	Maximum	Financial objectives	Total bonus	£000
John Nicholas[1]	–	–	–	–	–	–
Richard Ingram[2]	5%	63%	125%	125.0%	–	–
Bruce Thompson[3]	5%	63%	125%	125.0%	125.0%	625
Nigel Lingwood	5%	50%	100%	100.0%	100.0%	323

1 John Nicholas is not entitled to a bonus in his role as interim Executive Chairman.
2 Richard Ingram was not awarded a bonus for the year ended 30 September 2018.
3 Bruce Thompson's bonus is for the period from 1 October 2017 to 30 September 2018.

The Annual Performance Bonus for the financial year beginning 1 October 2018 will be based solely on adjusted operating profit, measured on a constant currency basis. The financial performance targets set for the Annual Performance Bonus will be disclosed in next year's Annual Report & Accounts.

Long term incentive awards

Performance conditions

Set out below is a summary of the performance conditions that apply to the PSP awards that vest in 2018 and the outstanding PSP awards, including those granted in December 2016 and December 2017. PSP awards since 1 October 2014 have been granted at 175% of base salary. The performance conditions applying to these awards made under the PSP are set out below. In determining the 2019 long term incentive award for the Executive Director, the Committee considered the exceptional circumstances that will prevail whilst the Company works through the recruitment, appointment and on-boarding of a new CEO. During this period, a significant additional load and responsibility will fall to the Group Finance Director, Nigel Lingwood. The Committee believes that it is in shareholders' interests in these exceptional circumstances to provide him with additional incentivisation. Accordingly and as allowed under the Policy, a grant of 225% of salary for the 2019 long term incentive was approved.

The performance condition for the first half of the PSP awards is that the average annual compound growth in the Company's adjusted EPS, over the three consecutive financial years following the financial year immediately prior to the grant, must exceed the specified absolute figures. The performance conditions are as follows:

	% of awards vesting
Adjusted EPS growth (over three years)	PSP
14% p.a.	100
5% p.a.	25
Below 5% p.a.	Nil

Where the Company's adjusted EPS performance is between these percentage bands, vesting of the award is on a straight-line basis. For the purposes of this condition, EPS is adjusted EPS as defined in note 2 to the consolidated financial statements and this definition remains consistent with the definition of adjusted EPS approved by the Committee in previous years.

The performance condition for the second half of the PSP awards compares the growth of the Company's TSR over a three-year period to that of the companies in the FTSE 250 Index (excluding Investment Trusts). The performance conditions are as follows:

	% of awards vesting
	PSP
Upper quartile	100
Median	25
Below median	Nil

Where the Company's TSR performance is between these percentage bands, vesting of the award is on a straight-line basis. The FTSE 250 Index was chosen because this is a recognised broad equity market index of which the Company is a member.

Awards vesting in 2018

The PSP awards made to the Executive Directors on 17 December 2015, and the PSP awards made to Bruce Thompson on 22 December 2016 and 28 December 2017, were subject to operating performance conditions as set out in the table on page 58, independently assessed over a three-year period ended 30 September 2018 and for the 2016 and 2017 awards to Bruce Thompson only, over the two and one-year period ended 30 September 2018, respectively. The outcome of each award is shown in the table below:

Adjusted earnings per share:

	Base EPS	EPS at 30 Sep 2018	CAGR in EPS	Maximum target	Maximum award	Vested award
PSP (17 December 2015)	38.2p	**56.4p**	13.9%	14.0%	50%	49.6%
PSP (22 December 2016)[1]	41.9p	**56.4p**	16.0%	14.0%	50%	50.0%
PSP (28 December 2017)[1]	49.8p	**56.4p**	13.3%	14.0%	50%	47.1%

1 Award vesting to Bruce Thompson only, following his retirement from the Board on 8 May 2018, on the basis explained on page 56.

TSR growth against FTSE 250 (excluding Investment Trusts):

	TSR at 30 Sep 2018	Median	Maximum target	Maximum award	Vested award
PSP (17 December 2015)	**25.9%**	5.3% p.a.	14.4% p.a.	50%	50.0%
PSP (22 December 2016)[1]	**28.5%**	12.1% p.a.	23.3% p.a.	50%	50.0%
PSP (28 December 2017)[1]	**28.4%**	3.75% p.a.	19.2% p.a.	50%	50.0%

1 Award vesting to Bruce Thompson only, following his retirement from the Board on 8 May 2018, on the basis explained on page 56.

As a result of the above performance conditions, 99.6% of the shares awarded as nil cost options vested to each Director under the PSP award granted on 17 December 2015. In addition, 100% and 97.1% of the shares awarded as nil cost options under the PSP awards granted on 22 December 2016 and on 28 December 2017 respectively, vested to Bruce Thompson.

Set out below are the shares that vested to each Executive Director at 30 September 2018 in respect of these awards. The shares vesting to Bruce Thompson are stated after each of the awards have been time pro-rated to reflect his retirement as explained on page 56.

		Share price at date of grant pence	Share price at 30 Sep 2018 pence	Proportion of award vesting	Shares vested number	Performance element[1] £000	Share appreciation element[2] £000	Total £000
Bruce Thompson[3]	– PSP	730p	1,416p	**99.6%**	**113,175**	827	776	**1,603**
	– PSP (2016)	997.5p	1,416p	**100.0%**	**56,842**	567	238	**805**
	– PSP (2017)	1,221p	1,416p	**97.1%**	**23,195**	283	45	**328**
Nigel Lingwood	– PSP	730p	1,416p	**99.6%**	**73,063**	534	501	**1,035**
John Nicholas[4]		–	–	**–**	**–**	–	–	**–**

1 The performance element represents the face value of awards that vested, having met the performance conditions set out above.
2 The share appreciation element represents the additional value generated through appreciation of the share price from the date the awards were granted to the end of the three-year performance period on 30 September 2018, and additionally in the case of Bruce Thompson, the two and one-year periods ended 30 September 2018 respectively.
3 The awards for Bruce Thompson have been pro-rated for two of three years for the 2016 PSP and pro-rated for one of three years for the 2017 PSP. These awards vested based on the testing of performance criteria for the period to 30 September 2018.
4 John Nicholas is not eligible for any LTIPs.

Dividend equivalent payments

Dividend equivalent payments of £117,516 (2017: £70,340) will be payable to Bruce Thompson and Nigel Lingwood in respect of the 2015 PSP awards which vested on 30 September 2018. These payments are included in this year's Annual Report on Remuneration. Dividend equivalent payments of £25,352 and £5,520 will be payable to Bruce Thompson in respect of awards which vested on 30 September 2018 relating to the 2016 PSP and 2017 PSP awards respectively.

Long term incentive plan – awards granted in the year

Bruce Thompson and Nigel Lingwood received grants of PSP awards on 28 December 2017, in the form of nil-cost options as set out on page 60. These awards were based on a share price of 1,221p, being the mid-market price of an ordinary share in the Company at close of business on the day immediately preceding the award.

Under normal circumstances, the options will not become exercisable until the performance conditions are determined after the end of the three-year measurement period which begins on the first day of the financial year in which the award is made and provided the Director remains in employment. The level of vesting is dependent on the achievement of specified performance criteria at the end of the three-year measurement period.

The award granted on 28 December 2017 to Bruce Thompson vested to the extent to which the applicable performance conditions were met for the year ended 30 September 2018. The award was pro-rated for time served, that is on the basis of one out of three years completed.

The performance conditions for these awards are set out on page 58.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Outstanding share-based performance awards

Set out below is a summary of the share-based awards outstanding at 30 September 2018, including both share awards which have vested during the year (based on performance) and share awards which have been granted during the year. The awards set out below were granted based on a face value limit of 175% of base salary for each award. No awards will vest unless the performance conditions set out on page 58 are achieved.

Diploma PLC 2011 Performance Share Plan

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2017	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2018
Bruce Thompson[1]									
17 December 2015	730p	829	30 Sep 2018	30 Sep 2018	113,630	–	113,175	455	–
22 December 2016	997.5p	850	30 Sep 2019	30 Sep 2018	85,263	–	56,842	28,421	–
28 December 2017	1,221p	875	30 Sep 2020	30 Sep 2018	–	71,664	23,195	48,469	–
Nigel Lingwood									
17 December 2015	730p	535	30 Sep 2018	30 Sep 2018	73,356	–	73,063	293	–
22 December 2016	997.5p	549	30 Sep 2019	30 Sep 2019	55,035	–	–	–	55,035
28 December 2017	1,221p	565	30 Sep 2020	30 Sep 2020	–	46,294	–	–	46,294

1 The awards for Bruce Thompson have been pro-rated for two of three years for the 2016 PSP award (85,263 shares awarded and pro-rated to 56,842 shares) and pro-rated for one of three years for the 2017 PSP award (71,664 shares awarded and pro-rated to 23,888 shares). These awards vested based on the testing of performance criteria for the period to 30 September 2018, as explained on page 56.

The PSP awards vest on the date on which the performance conditions are determined and confirmed by the Committee, following the end of the performance period.

The PSP awards are granted in the form of nil-cost options (there is a notional exercise price of £1 per award). To the extent that the awards vest, the options are then exercisable until the tenth anniversary of the award date; a good leaver must exercise his awards within 12 months of leaving the Company. Details of options exercised during the year and outstanding at 30 September 2018 are set out on page 62.

Long Term Incentive Award (on recruitment)

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Vesting date	Shares over which awards held at 1 Oct 2017	Shares over which awards granted during the year	Vested during the period	Lapsed during the period	Shares over which awards held at 30 Sep 2018
Richard Ingram[1]									
15 May 2018	1,233p	624	30 Sep 2019	30 Sep 2019	–	50,618	–	50,618	–
15 May 2018	1,233p	936	30 Sep 2020	30 Sep 2020	–	75,932	–	75,932	–

1 Richard Ingram received a Long Term Incentive Award on 15 May 2018 in the form of nil-cost options. The award was made in accordance with Listing Rule 9.4.2R(2) and comprised 50,618 award shares with a two-year performance period to 30 September 2019 and 75,932 award shares with a three-year performance period to 30 September 2020. Both of these awards lapsed when Richard Ingram stood down as Chief Executive Officer and Executive Director on 28 August 2018.

SERVICES FROM EXTERNAL ADVISORS (UNAUDITED)

Stephenson Harwood LLP provide legal advice to the Committee on remuneration matters and on the Directors' Remuneration Policy. Ashurst LLP provide legal advice on employment matters.

The Committee also received advice and assistance from Aon on market practice, governance trends and the application of Policy during the year. The Committee also engaged MEIS to provide certain data analyses to the Committee.

The Committee has considered and is satisfied that the advice received from the external advisors it has appointed is objective and independent. None of the advisors have any relationships with the Company.

Advisor	Appointed by	Services provided to the Committee	Other services provided to the Company	Fees (£)
Aon	Committee	Remuneration advice	None	32,404
MEIS	Committee	Data analysis	None	7,000
Stephenson Harwood LLP	Committee	Legal and remuneration advice	None	35,833
Ashurst	Committee	Legal advice	None	118,423

SHAREHOLDER VOTING AT PREVIOUS ANNUAL GENERAL MEETING (UNAUDITED)

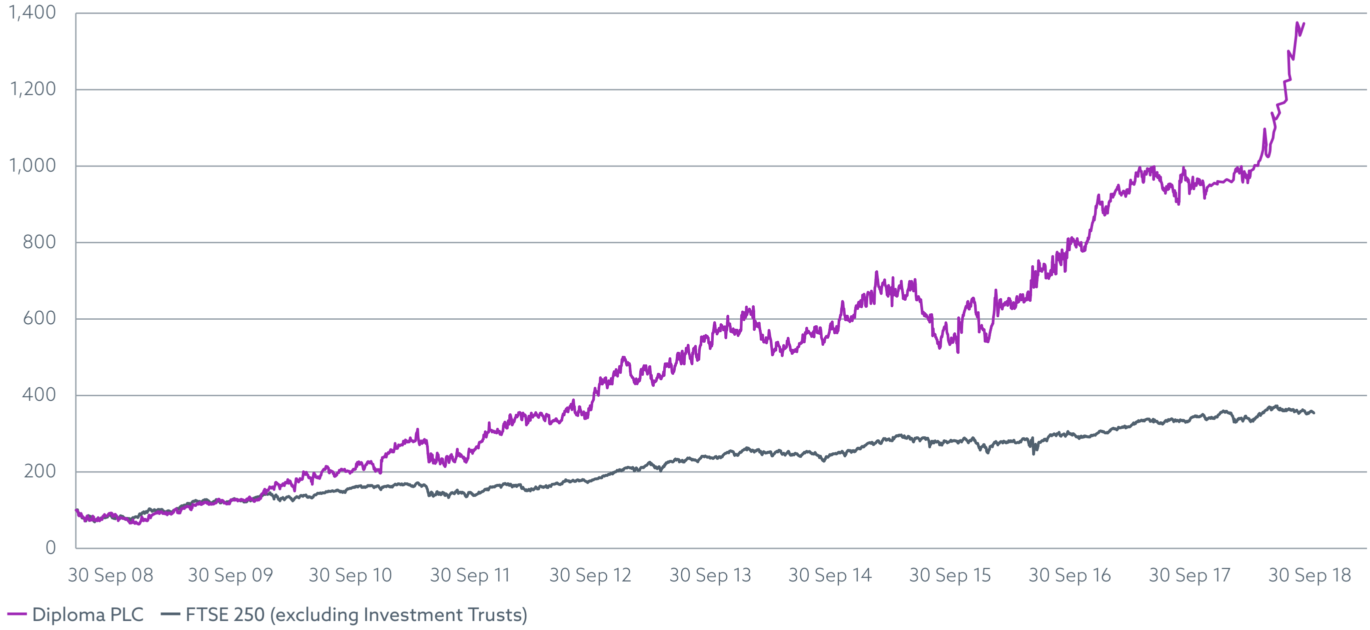
The Remuneration Committee's Annual Report ("the Report") and the Remuneration Committee's Report on Directors' Remuneration Policy ("the Policy") for the year ended 30 September 2017 was approved by shareholders at the AGM held on 17 January 2018, with the following votes being cast:

	Policy		Report	
Votes for	91,393,536	97.92%	90,383,863	96.84%
Votes against	1,941,428	2.08%	2,951,100	3.16%
Withheld	12,500		12,500	

ALIGNING PAY WITH PERFORMANCE (UNAUDITED)

The graph below shows the Total Shareholder Return ("TSR") performance of Diploma PLC for the ten-year period ended 30 September 2018 against the FTSE 250 Index as the Company is a member of this Index.

Growth in the value of a hypothetical £100 holding over ten years



TSR is defined as the return on investment obtained from holding a company's shares over a period. It includes dividends paid, the change in the capital value of the shares and other payments to or by shareholders within the period.

CHIEF EXECUTIVE OFFICER REMUNERATION COMPARED WITH ANNUAL GROWTH IN TSR

Year	Name	Chief Executive Officer single figure of total remuneration (£'000)	Annual Bonus against maximum opportunity	Actual share award vesting	Annual growth in TSR
2018	**John Nicholas[1]**	**14**	**–**	**–**	**+36%**
2018	**Richard Ingram[2]**	**235**	**–**	**–**	**+36%**
2018	**Bruce Thompson[2]**	**3,842**	**100%**	**99%**	**+36%**
2017	Bruce Thompson	2,258	100%	89%	+24%
2016	Bruce Thompson	1,634	95%	45%	+36%
2015	Bruce Thompson	1,139	51%	25%	–1%
2014	Bruce Thompson	1,846	65%	61%	+8%
2013	Bruce Thompson	2,401	33%	100%	+42%
2012	Bruce Thompson	1,830	95%	100%	+54%
2011	Bruce Thompson	1,701	100%	100%	+16%
2010	Bruce Thompson	1,287	100%	100%	+71%
2009	Bruce Thompson	834	30%	91%	+21%

1 John Nicholas is not eligible for an Annual Bonus or share award.
2 These amounts are pro-rated for the period served as CEO, as explained on page 56.

REMUNERATION COMMITTEE REPORT CONTINUED

ANNUAL REPORT ON REMUNERATION CONTINUED

Set out below is the change over the prior year in base salary, benefits, pension, annual performance bonus and short-term remuneration of the Chief Executive Officer and the Group's senior management cadre.

	Change in base salary %	Change in pension %	Change in benefits %	Change in annual performance bonus %
Chief Executive Officer[1]	+3	+3	–	+3
Senior management cadre	+6	+3	–	+16

1 Based solely on amounts paid to Bruce Thompson while he was Chief Executive Officer.

The Committee chose the senior management cadre for pay comparisons with the Chief Executive Officer as it provided the most closely aligned comparator group, considering the global and diverse nature of the Group's business.

RELATIVE IMPORTANCE OF EXECUTIVE DIRECTOR REMUNERATION (UNAUDITED)

	2018 £m	2017 £m	Change £m
Total employee remuneration	**92.7**	86.4	+6.3
Total dividends paid	**26.8**	23.5	+3.3

EXECUTIVE DIRECTORS' INTERESTS

In options over shares

In respect of nil cost options granted under the PSP, the remuneration receivable by an Executive Director is calculated on the date that the options first vest. The remuneration of the Executive Director is the difference between the amount the Executive Director is required to pay to exercise the options to acquire the shares and the total value of the shares on the vesting date.

If the Executive Director chooses not to exercise the nil cost options on the vesting date (he may exercise the options at any time up to the day preceding the tenth anniversary of the date of grant), any subsequent increase or decrease in the amount realised will be due to movements in the underlying share price between the initial vesting date and the date of exercise of the option. This increase or decrease in value reflects an investment decision by the Executive Director and, as such, is not recorded as remuneration.

The nil cost options outstanding at 30 September 2018 and the movements during the year are as follows:

	Year of vesting	Options as at 1 Oct 2017	Exercised in year	Vested during the year	Options unexercised as at 30 Sep 2018	Exercise price[5]	Earliest normal exercise date	Expiry date
Bruce Thompson	2017	94,565	94,565	–	–	£1	Nov 2017	Dec 2024
	2018	–	–	**193,212**	**193,212**	£1	Nov 2018	Dec 2025
Nigel Lingwood	2017	61,056	61,056	–	–	£1	Nov 2017	Dec 2024
	2018	–	–	**73,063**	**73,063**	£1	Nov 2018	Dec 2025

1 Bruce Thompson exercised 94,565 options on 24 November 2017, at a market price of 1,196p per share and the total proceeds before tax were £1,130,997.
2 Nigel Lingwood exercised 61,056 options on 24 November 2017, at a market price of 1,196p per share and the total proceeds before tax were £730,230.
3 On 24 November 2017, the aggregate number of shares received by the participants was reduced by 73,141 shares as part of arrangements under which the Company settled the PAYE liability that arose as a result of the exercise in full by the Executive Directors of options held over shares. The market price at that time was 1,196p.
4 The closing price of an ordinary share on 30 September 2018 was 1,416p (2017: 1,059p).
5 All awards have a notional exercise price of £1 per award.

In ordinary shares

The Executive Directors' interests in ordinary shares of the Company were as follows:

	As at 30 Sep 2018[1]			As at 30 Sep 2017		
	Ordinary shares	Options vested but unexercised	Interest in shares with performance measures	Ordinary shares	Options vested but unexercised	Interest in shares with performance measures
Bruce Thompson at 8 May 2018	**516,450**	–	**270,557**	570,000	94,565	198,893
Richard Ingram at 28 August 2018	–	–	**126,550**	–	–	–
Nigel Lingwood	**180,000**	**73,063**	**101,329**	200,000	61,056	128,391

1 Bruce Thompson's interests are shown as at the date of his retirement from the Board on 8 May 2018 and are before vesting of the PSP option awards. Richard Ingram's interests are shown as at 28 August 2018 when he stood down from the Board.

Interests in ordinary shares include shares held through personal saving vehicles. As of 19 November 2018, there have been no changes to the interests in ordinary shares of the Company held by Nigel Lingwood.

At 30 September 2018 the ordinary shares held by Nigel Lingwood represented 789% of his base salary. The Committee has set a minimum shareholding guideline of 200% for the Executive Directors.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS' REMUNERATION

Individual remuneration for the year ended 30 September was as follows:

	Total fees 2018 £000	Total fees 2017 £000
John Nicholas	**145**	140
Charles Packshaw	**55**	54
Andy Smith	**55**	54
Anne Thorburn	**55**	54

The non-Executive Directors received a basic annual fee of £50,000 during the year and there were additional fees paid in 2018 of £5,000 (2017: £5,000) for chairing a Committee of the Board or for acting as Senior Independent Director. No additional fee for chairing a Committee of the Board is payable to the Chairman of the Company. The fees for non-Executive Directors are reviewed every year by the Board, taking into account their responsibilities and required time commitment. Following a review undertaken on 13 November 2018, the Board approved an increase of 3.0% in the Chairman's fee to £148,950 p.a. and in the basic annual fee paid to non-Executive Directors to £51,500. The additional fee for chairing a Committee of the Board will increase to £12,000 and for acting as Senior Independent Director will increase to £10,000. All these fee increases will take effect from 1 October 2018.

CHAIRMAN AND NON-EXECUTIVE DIRECTORS' INTERESTS IN ORDINARY SHARES

The non-Executive Directors' interests in ordinary shares of the Company at the start and at the end of the financial year were as follows:

	Interest in ordinary shares As at 30 Sep 2018	Interest in ordinary shares As at 30 Sep 2017
John Nicholas	**7,000**	5,000
Charles Packshaw	**1,500**	1,500
Andy Smith	**5,500**	5,500
Anne Thorburn	**3,000**	3,000

SENIOR EXECUTIVES BELOW THE BOARD (UNAUDITED)

The policies and practices with regard to the remuneration of senior executives below the Executive Directors are generally treated consistently with the Executive Directors. These senior executives all have a significant portion of their reward package linked to performance. Annual bonuses are linked to short term financial targets which use similar performance metrics to the targets for the Executive Directors. Members of the Executive Management Committee ("EMC") participate in the Diploma PLC 2011 Performance Share Plan. Senior management outside the EMC participate in cash based long term incentive plans that are focused on the operating profit growth of their businesses over rolling three-year periods.

Set out below is a summary of the share-based awards outstanding at 30 September 2018 which have been granted to members of the EMC, including share awards which have vested during the year based on performance and share awards that have been granted both last year and during this year. The awards set out below were granted based on a face value limit that varied between 30% and 60% of base salary. No awards will vest unless the performance conditions set out on page 58 are achieved over a three-year measurement period.

DIPLOMA PLC 2011 PERFORMANCE SHARE PLAN

	Market price at date of award	Face value of the award at date of grant £000	End of performance period	Maturity date	Shares over which awards held at 1 Oct 2017	**Shares over which awards granted during the year**	**Vested during the period**	**Lapsed during the period**	**Shares over which awards held at 30 Sep 2018**
17 December 2015	730p	159	30 Sep 2018	30 Sep 2018	21,781	**–**	**13,917**	**7,864**	**–**
22 December 2016	997.5p	390	30 Sep 2019	30 Sep 2019	39,126	**–**	**–**	**18,045**	**21,081**
28 December 2017	1,221p	430	30 Sep 2020	30 Sep 2020	–	**35,206**	**–**	**16,708**	**18,498**

In November 2017, 18,961 nil cost options, in respect of awards which vested at 30 September 2017, were exercised by participants.

The Committee anticipates making similar awards to members of the EMC in December 2018.